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Final report on the independent review of the United Nations Office for Project Services

> *Note*
>
> Pursuant to Executive Board decision 2003/4, the Executive Director of the United Nations Office for Project Services (UNOPS) is pleased to present the present final report on the independent review of the United Nations Office for Project Services to the Executive Board in the language of submission and will shortly provide comments thereon to the Executive Board through the Management Coordination Committee.

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Independent Review of the United Nations Office for Project Services

Final Report

Prepared for:
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United Nations Office for Project Services (UNOPS)

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GOSS GILROY INC.
Management Consultants
Conseillers en gestion

Independent Review of the United Nations Office for Project

Final Report

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1.0 Introduction

This document presents the Draft Final Report of the Independent Review of the United Nations Office for Project Services.

1.1 Outline of the Report

This report contains the following sections:

- Section 1 consists of this brief introduction including a summary restatement of the background, purpose, objectives and focus of the review;
- Section 2 presents the methodology and the lines of inquiry that guided the review;
- Section 3 gives an overview of the recent history and the current state of affairs including an outline of recent reviews and evaluations of UNOPS, their outcome and conclusions;
- Section 4 covers the current UNOPS business model and discusses examples form similar organizations;
- Section 5 describes the assessment of the markets for UNOPS services;
- Section 6 includes organizational issues, HRM development, financial systems and practices, procurement and governance. In addition, this section of the report provides an assessment of the viability and sustainability of UNOPS on the basis of simulations of potential outcomes for UNOPS under various assumptions; and,
- Section 7 presents a framework for moving forward.

1.2 Background

The United Nations Office for Project Services (UNOPS) was created in 1994 as a separate and self-financing entity of the United Nations system offering a broad range of services to the organizations of the United Nations system.

At its annual session 2002, the Executive Board of the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) expressed concern that UNOPS administrative expenditures had not been aligned with its income during the last two years. As a result, the Executive Board determined that an independent operational review of the business model of UNOPS should be undertaken and drew up Terms of Reference for the review. The review was to include the cost effectiveness of the business model, the potential market for expansion of business opportunities for UNOPS within the United Nations system and the establishment of a framework for a sustainable UNOPS.

This review comes at a time when the organization is yet to stabilize after severe budgetary and staff reductions. The organization is currently in transition toward a new operational regime.

1.3 Purpose and Objectives

The purpose of the review was to formulate a forward-looking strategy for the long-term growth and sustainability of UNOPS to enable it to evolve within the changing market of the United Nations system. The review is intended to produce a series of recommendations and action-oriented proposals for:

- Aligning cost and revenue structures;
- Identifying areas of business expansion with cost-effective operating margins; and,
- Implementing the necessary organizational and financial structures.

The Independent Review incorporated an assessment of the following:

1. ***UNOPS Service Offerings***: Reviewing the range and level of services offered by UNOPS to various client groups to assess the performance of UNOPS vis-à-vis currently accepted practice in international public procurement and project management;

2. ***Potential Market for UNOPS Services:*** Assessing comparative advantages of each of these services, identifying the potential market for UNOPS services and the potential for expansion of the market for the services;

3. ***Cost Effectiveness and Value Added of UNOPS to clients:*** Reviewing issues of cost-effectiveness, provision of value to the marketplace, income-projection

methodology and application, openness in tendering procedures, transparency and accountability;

4. ***Competitiveness of UNOPS:*** Assessing the competition for providing the services including other providers of similar services both within and outside the United Nations system;

5. ***UNOPS Business Model and Financial Management:*** Analyzing the revenue and cost structures of UNOPS, its operating margins on products and services and its business processes and management tools including income projections, competitiveness, cost-effectiveness and self-financing;

6. ***Business Acquisition and Market Development:*** Examining and discussing with UNOPS managers and personnel, potential long and short term activities related to the methods of managing and promoting of services; and,

7. ***Enhance UNOPS Business Model and Management Framework:*** Preparing action oriented recommendations and proposals for enhancements to the UNOPS business model including an adaptable cost structure and efficient business processes, areas of potential business growth and tools required for change-management from a financial, human and management perspective.

1.4 Review Focus

During the early part of the review process, the Independent Review team, in consultation with senior UNOPS managers, major clients and other stakeholders, determined that that this review should be:

- ***Strategic***, in that it should concentrate on the main issues facing UNOPS related to market potential, competitiveness, and its business model, and repeating the approach taken in some of the earlier reviews;

- ***Outward Looking*** in the sense that it should examine UNOPS, its organization, structure and governance as part of the UN organization rather than focusing solely on internal issues without regard to the changing context within which UNOPS operates; and,

- ***Forward Looking*** **so as to provide a way forward rather than a 'post mortem' of historical issues, and their cause and effect and thus addressing past situations which have now been overtaken by events.**

2.0 Methodology

The main issue areas and lines of inquiry for the review were the following:

Market Assessment

- Competitive Environment,
- Competitiveness of UNOPS,
- Qualitative Market Analysis,

Business Model Assessment

- Existing and Alternative Models,
- Financial Structures and Management,

Organizational Assessment

- UNOPS Organization Structure,
- Human Resource Management,
- Governance,

Procurement

- Procurement practices, and
- Oversight.

These were described in more detail, in a Methodology Report presented to UNOPS, the Management Coordination Committee and the Executive Board of UNDP in May 2003. The methodologies used to address these issues are summarized below.

2.1 Document Review

During the course of the review, the consultants had access to a large body of documentation, including reports and studies generated by the UN as well as outside consultants such as KPMG, Downey, etc. and memoranda and minutes of meetings produced by UNOPS and other UN staff members. In addition, searches were conducted to make available to the team members reports and information, available through the Internet, on such issues as current trends in ODA; state-of-the-art thinking with respect to business models; and the application of the above to UNOPS.

A listing of the major documents consulted during the review is included in Appendix "A".

2.2 Interviews

Because of the nature of the review, the team members consulted as to allow a deeper understanding of UNOPS operations and UNOPS relationships with its existing and potential clients within the UN system. The following groups were among those consulted extensively in the course of the work:

- Managers - Headquarters and Decentralized Offices;
- Staff - Headquarters and Decentralized Offices;
- Clients and potential clients;
- Managers and personnel in other agencies directly or indirectly comparable to UNOPS;
- UNOPS Business Advisory Council Members;
- UNOPS MCC; and,
- Member States.

During the consultations, the team members used pre-designed interview guides to ensure a standardized approach to the study by all of the team members. These are available in Appendix "B". A list of persons interviewed either in person or by telephone, during the course of the review, is included in Appendix "C".

2.3 Survey

Two surveys were conducted in the course of the review. The instruments used for these surveys are included as Appendix "D".

- Portfolio and Project Managers were surveyed anonymously to attempt to gain a deeper understanding of organizational efficiency and the dynamics of project management and time utilization.

- Clients and potential clients were surveyed in order to assess longer-term business potential, attitudes toward UNOPS and levels of client satisfaction.

2.4 Alternative Models

The members of the consulting team have had a range of experience with corporate, government and para-government entities which can be compared to UNOPS with respect to "revenue dependency' and/or "cost recovery". Among these are:

- Consulting and Auditing Canada, a para-government consultancy which operates on a cost recovery basis;
- Engineering and architectural consulting firms which operate on a full revenue dependency basis and may use "percentage of cost" fee structures in some instances; and,
- Common Service and Special Operating Agencies (UK, Canada and elsewhere), which have a variety of business purposes and models. Most of these are "not-for-profit" operations using cost recovery and revenue dependency as a means of self funding.

The team members also consulted with a select number of organizations with respect to specific aspects of their business models.

2.5 Analysis and Modeling

In order to explore the sensitivity of the various assumptions and issues related to the viability and sustainability of UNOPS operations and to address "what if" type questions related to future potential, the team developed a financial model to study and analyze UNOPS' revenue and cost structures according to different scenarios.

The scenarios, assumptions and a description of the results of the various alternatives are described in Section 5 of the report.

3.0 Overview of UNOPS

3.1 UNOPS Mandate

In 1973 an organizational entity was established as a "defined project execution arm of UNDP responsible for the execution of multi-sectoral projects that cut across the technical and thematic mandates of the various agencies." Known as the Project Execution Division, the division was responsible for projects which required general management capacities rather than expert sectoral guidance and which did not fall within the aegis of other UN agencies. The division was renamed The Office for Project Execution (OPE) in 1975, and renamed The Office for Project Services (OPS) in 1988.

The growth in OPS, which was by then providing delivery services for some US$200 million in projects for UNDP, the International Fund for Agricultural Development (IFAD), the World Bank and other donors, lead to a decision in 1994 by the UN General Assembly to create:

> *"A separate and identifiable entity in a form that does not create a new agency and in partnership with UNDP and other operational entities... and which will continue to work through the UNDP field network"* (Decision 94/12).

The above decision also restricted UNOPS from doing any fund raising on its own.

The UN Office for Project Services (UNOPS) came into being as of 1 January 1995. The governance structure specified that an Executive Director would head UNOPS. The Executive Director reports through a Management Coordination Committee (MCC) to both the UN Secretary-General as well as to the UNDP Executive Board. The MCC was intended to provide the Secretary-General with an oversight capacity.

A Users Advisory Committee was also created to establish institutional links between UNOPS and its clients and in order to:

> *"Provide feedback to OPS on the effectiveness of its operations as perceived by the major users within the UN system."*

At the time of the creation of UNOPS, the enabling decisions specified that UNDP should continue to provide central administrative services and that UNOPS should continue to work through the UNDP Country Offices. In March 1997, a Memorandum of Understanding (MOU) was executed between UNDP and UNOPS. The MOU specified services to be provided by the two parties as well as intended areas of cooperation between the two organizations.

In broad terms, the UNOPS mandate is to support UN programmes by providing UNDP and other UN agencies with services for the implementation of projects and programmes funded by these UN agencies.

3.2 Recent Reviews of UNOPS

There have been a number of previous reviews of UNOPS conducted from a number of viewpoints, by a number of organizations. Several of these reviews contained significant findings and recommendations. These reviews included:

- UNDP Evaluation Office: Evaluation of the Relationship between UNDP and UNOPS, December 1999;
- The Operating Chief's Retreat—June 2000;
- OIOS Management Review—September 2001; and
- SMF-Staff Consultations Report—December 2002.

Appendix E includes a brief summary of these reviews. Exhibits 1 and 2 below summarize the key findings and recommendations of these reviews. As may be seen, the findings and recommendations of these studies were very similar. As well, each study noted the immediate need for action. Unfortunately, most of the findings contained in the reports were merely repeated annually and little or no action has been taken on the recommendations. The failure to create a change management team, a change management plan, and to assign responsibility, authority, and resources to address many of these issues greatly contributed to the financial crisis of 2000, 2001.

The UNOPS financial crisis resulting in excess expenditure over income took place primarily in 2000 and 2001 due to uncontrolled growth in administrative budget

expenditure that was not supported by a corresponding increase in delivery and, by extension, income.

Exhibit 1
Previous Review Findings

	Dec. 1999	June 2000	Sept. 2001	Dec. 2002
1. Destructive Relations, Overlap/Duplication With UNDP	T		T	T
2. Poor Financial Reporting Client Dissatisfaction	T	T	T	
3. DEX/NEX Trend and Effect On Project Complexity	T			
4. Arbitrary Fee Setting Methods	T	T		
5. Arbitrary Recruiting & Promotion Methods		T		T
6. Destructive Internal Competition		T	T	T
7. Lack of Governance			T	T
8. Too Much Overhead				T
9. No Performance Measurement				T

Exhibit 2
Previous Review Recommendations

	Dec. 1999	June 2000	Sept. 2001	Dec. 2002
1. Clarify Roles, Functions of UNDP and UNOPS	T	T	T	T
2. Review Governance	T		T	T
3. Reassess Self Financing	T			T
4. Repair/Replace Financial Reporting System	T	T	T	T
5. Develop a Proper Fee Setting System	T	T	T	T
6. Repair/Replace Various Operating Systems		T	T	
7. Reduce Overhead Waste		T		T
8. Introduce Performance Measurement System				T

[illegible]

3.3 Overview and Current Status of UNOPS

Upon becoming a separate, independent, self-financing agency in 1995 UNOPS retained most of the project workload and revenues from its work for UNDP. Initially, UNOPS revenue levels permitted a considerable operational reserve fund to be built up.

At that time however, ODA was changing rapidly, for example, UNDP core funding was being reduced and the agency was going through a process of rationalization. Donors were demanding more efficiency of delivery. As a result, there was, and continues to be, considerable pressure on UNDP budgetary resources.

1998 to 2001

By 1999, as the review of the UNDP/UNOPS relationship indicates, budgetary cuts at UNDP had reduced the capacity of the agency to undertake programme delivery and to fund country office staff. These reductions had resulted in an effort by UNDP to choose execution modalities that ensured more extra-budgetary resources. UNOPS continued to implement projects for UNDP but the nature of these projects was changing. In the interest of keeping a larger portion of project administrative costs within UNDP, the agency began executing increased numbers of lower complexity projects internally, leaving the more difficult and complex and, therefore, the lower net revenue margin projects for UNOPS.

During this period, *UNOPS senior management did not appear to recognize the danger of the potential drop in revenues and increased trend toward labor intensive, and lower net revenue earning projects.* UNOPS grew in a number of areas that did not directly contribute to project efficiency and client service.

To further compound the situation, some UNOPS managers began to behave as if they had a 'product mandate.' Publicity materials were developed that failed to recognize that they are providers of project management services to UN agencies responsible for the fundraising and project execution, not the agency with fundraising and execution responsibilities. This situation has improved, but there are still perceptions by some clients that UNOPS promotes itself excessively, without giving proper credit to the

UN agencies, which were responsible for the funding, design and execution of projects.

By the end of 2001, the reserves, built up in earlier years, which should have served as a "revolving fund" to allow UNOPS to promote its services and to reinvest in systems and training to make itself the 'implementing agency of choice," had largely been depleted. Although in 1998/1999 the reserve was replenished by $14 million, a drawdown of $14 million to fund the move to the Chrysler Building, plus a further drawdown of $11 million in 2000/2001 to cover the 2000/2001 operating, contributed to a drop in UNOPS' December 31, 2001 reserve balance to $5 million. Therefore, any capacity to weather any further downturn in business, through a draw on the reserve revolving fund, was largely eliminated.

Events and Circumstances in 2002

Following two consecutive years during which UNOPS' income did not cover its recurring administrative expenditure for the year, UNOPS faced a budget crisis. In the beginning of 2002, expenditure and income forecasts projected another US$10 million deficit for 2002.

The seriousness of the financial difficulties caused UNOPS to implement drastic cost-cutting measures in administrative expenditures of $9.3 million. The measures included a 23% reduction in personnel costs, through the abolition of posts, reduction of consultants and temporary assistance costs, a freeze in the recruitment of staff, the reclassification of post levels, a reduction in overtime payments, cutbacks on information technology investments and promotion activities, and the deferral of various activities and expenses, such as travel not related directly to delivery, and training activities.

Priority was given to ensuring better financial performance by focusing on financial monitoring. A new, more detailed, planning methodology was developed, involving more realistic delivery, income and expenditure forecasting.

In 2002, UNOPS ended the year within the approved 2002 administrative budget of $43.5 million. Total income amounted to $43.7 million allowing UNOPS to generate a small excess of income over administrative expenditures of $200,000. However, additional reserve transactions related to staff separation and an allowance for doubtful accounts further depleted the reserve to $4.2 million.

The Context for 2003

The scope and nature of the budget reduction exercise in 2002, and the staff reduction exercise, together with an atmosphere of uncertainty regarding UNOPS' future, has placed significant stress on the staff. Morale is low and mutual staff-management mistrust is widespread.

With the greatly diminished operating reserve and the forecast requirement to reduce it further, UNOPS has lost much of its capacity for enhancing its project delivery capabilities, something that is increasingly demanded by clients. Furthermore, the capacity to promote UNOPS and to reinvest in systems has almost totally been eliminated.

UNOPS Plans for 2003

At the time of the review in June, the 2003 Business Plan dated May 2003 was still being finalized. The draft plan specifies that forecasting delivery volumes, income and project acquisition may be difficult beyond a one year planning horizon.

For 2003, both income and administrative expenditures are forecasted as $44.5 million. However, in addition to the $44.5 million in administrative expenditures, a further $1 million in reserve transactions (separation costs and part of the ERP investment cost) is also anticipated. Thus as of December 31, 2003, the reserve balance is forecasted at $3.2 million.

The draft 2003 Business Plans specifies three priorities for 2003: continued consolidation of short-term fiscal management; continued fiscal discipline; and, rebuilding sustainability.

The plan also emphasizes that the new Executive Director will lead the next level of improvements in UNOPS structure, operations and business model.

4.0 Business Model

This section of the report includes the following:

- An introduction to the concept of a business model;
- An overview of the spectrum of business models in a private and public sector context;
- A summary of findings related to a review of "UNOPS-like" organizations; and,
- An overview of the UNOPS business model.

4.1 Business Model Defined

Basically, a business model is the method of doing business by which an enterprise sustains itself. The model spells out how the organization earns revenue within its environment. However, the concept of a business model goes well beyond the concept of revenue. A more comprehensive definition is given by research fellows Jane Linder and Susan Cantrell[1]:

> *"A real business model is the organization's core logic for creating value, more specifically, it is:*
>
> - *The set of value propositions an organization offers to its stakeholders;*
> - *Along with the operating processes to deliver these, arranged as a coherent system, that both relies on and builds assets, capabilities and relationships in order to create value."*

In other words, the business model describes: what we do; how we do it; business constraints; who are our clients; why our clients need our services; how we sell our services; and how we earn our revenues. However, it is not enough to simply document the business model on paper. The Accenture Institute for Strategic Change, referred to above, notes that in order to be effective, a business model has several implications for management. Management must:

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[1] "Outlook, Point of View", 2001, Accenture Institute for Strategic Change.

- Clarify the business model so that it is understood and accepted by all staff and the focus of the organization is unambiguous;
- Make change part of the business architecture and thus make the organization less vulnerable to external pressures; and,
- Establish a 'lean, agile' framework for competition so that the business may adapt to changes in the business environment.

In the case of UNOPS, the implications for management of a viable UNOPS business could be expanded to include:

- The definition of the value added of UNOPS services;
- The need to define more realistic and achievable revenue and expenditure and possibly growth targets; and,
- The need to ensure an adequate annual surplus and operating reserve to finance capital expenditures, promotion, training, systems development, etc.

4.2 Spectrum of Business Model Alternatives

There are many different business models that can be successfully established to deliver services, whether in the private, public, domestic, international, and profit or not-for profit realms. The choice of an entity's model will depend primarily on the extent to which it is desirable to have government or UN ownership of the entity delivering the services, the source of funding of the entity, and the desired management and accountability regime. Exhibit 3 briefly summarizes the difference between the two ends of the spectrum, a government department and a private corporation, as well as examples of hypothetical models in between these two extremes.

Exhibit 3

Spectrum of Business Models—Comparison of Three Key Criteria

Criteria	Business Model			
	Private Corporation	Public organizations e.g. #1	Public organization e.g. #2	Government (or UN) Department
1. Extent of Government Ownership	• None	• Partially owned by the government or a government entity	• Entirely owned by government entity	• Entirely owned by the government or UN
2. Source of Funding	• Operations (i.e. revenue dependent) • Equity or debt financing • Possibly government grants or loans	• Operations (i.e. some revenue dependence) • Government-backed or funded debt financing	• Operations (i.e. some revenue dependence) • Some appropriations	• Appropriations
3. Management Accountability Regime	• Own management regime • Management actions are limited by articles of incorporation and laws of jurisdiction • Management is accountable to the shareholders	• Own management regime • Subject to selected policies and regulations of the government • Management is accoutable to an elected senior politicien (Minister/Secretary)	• Own management regime • Subject to policies and regulations of the government • Management is accountable to an elected senior politician (Minister/Secretary) the Minister and Parliament/Congress/General Assembly	• Government management regime • Subject to policies and regulations of the government • Management is accountable to an elected senior politician (Minister/Secretary) the Minister and Parliament/Congress/General Assembly

Many different types of business models are workable, if the design of the model and the context for the organization are internally consistent. For example, with the private sector model, the organization is 100% revenue dependent, but given that requirement, the private corporation has free rein to:

- Develop, define and offer services or goods;
- Hire executives and managers;
- Identify, develop and market to potential clients;
- Develop strategies, plan, policies, processes and systems to "make it work"; and,
- Plan and control costs.

With respect to funding, the private sector organization, on the basis of the strength of its management capacity, strategies, plans and assets, has the freedom to apply for and negotiate with private financing institutions to meet required short, medium or long term financing requirements.

At the other end of the spectrum, a government or UN department is totally dependent on it's funding from government or UN appropriations. The "price" of that dependency means that the organization is subject to prescribed mandates, products, clients, activities, policies, systems, hiring practices, etc.

In between the private sector and the government department model there are many workable models, as illustrated in the following section where we provide a summary review of the business models of three non-private sector organizations that offer similar services to UNOPS.

4.3 Models Used By Other Agencies

As part of this study, the consultants were asked to briefly review the business models used by other providers of similar services to those offered by UNOPS. There are many such providers of public sector and government consultancy services including all of the major consultancy firms. Three were selected for examination, Germany's Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Crown Agents of Great Britain, and Consulting and Audit Canada (CAC).

4.3.1 Gesellschaft für Technische Zusammenarbeit (GTZ)

GTZ is a government-owned corporation for international cooperation with worldwide operations. The firm carries out a large number of projects, primarily in developing countries and paid for by the German Federal Government. GTZ's aim is to improve the living conditions and perspectives of people in developing and transition countries.

There are about 1,000 people at the GTZ headquarters near Frankfurt. The firm is organized along geographic lines with four regional departments, one for each Sub-Saharan Africa, Asia, Latin America and Mediterranean, Europe, Central Asian Countries. Sectoral expertise is contained within a Planning and Development department. Teams of professionals at headquarters provide backstopping and technical expertise as required for locally managed projects. GTZ claims an extensive knowledge network through international institutions.

The governance structure provides for the corporation to report to the Ministry for Economic Cooperation and Development, the Foreign Office, the Ministry of Finance and the Ministry for Economics through GTZ's Supervisory Board chaired by a Secretary of State.

GTZ International Services provides services in many areas including: governance; economic reform and development; education; infrastructure; conflict and crisis; rural development; health; environment and resources; and procurement. Services offered in each of the above areas include: consulting; project implementation; project and financial management; programme and fund management; organization of international conferences, and recruitment of personnel.

According to the GTZ annual report, international services income amounts to about 12 percent of the value of projects undertaken. GTZ does not publish complete financial statements. In 2002 GTZ had turnover of 875 million euros, undertook 2,754 discrete projects with 10,600 staff, 8,300 of which were national staff. Net income can only be estimated at about 2% of turnover. Surpluses not required for reserves can be reinvested by GTZ in its own development projects.

Their annual reports indicate that the agency plans and budgets on the basis of turnover much as UNOPS does.

GTZ would not discuss their fee structures. Unless asked in the context of specific proposal, they indicated that their consultancy rates would be in line with those charged by other EU firms in the international marketplace.

4.3.2 Crown Agents

Crown Agents is an international development company offering capacity-building and institutional development services in public sector transformation, particularly in revenue enhancement and expenditure management, banking, public finance, training and procurement.

Until recently, Crown Agents was a British public corporation. It was transferred to the private sector as a limited company owned by a new entity, The Crown Agents Foundation. The Foundation consists of companies, non-governmental organizations and international bodies.

Most of Crown Agents' project work is funded by international development agencies. Some projects are undertaken directly by clients on a competitive basis. Crown Agents carries out project work in more than 100 countries, as well as for international development agencies and institutions. Projects are often undertaken in joint venture or partnership with other organizations, and with local firms in client countries.

The company claims many skills including managing projects requiring the coordination of several different types of input: equipment, commodities, technical skills, staff training, financial administration and information technology.

In carrying out projects, Crown Agents may use internal expertise but most frequently draws in resources from other international companies, organizations and individuals or from the various countries where projects are located. Expertise is sub-contracted to supplement input in areas of activity needing particular expertise.

Crown Agents sometimes sets up companies and associations within client countries using local partners. In the USA, Crown Agents has set up a consultancy firm in Washington, DC called Crown Agents Consultancy Inc. The firm is a member of the Deloitte, Touche, Tohmatso consortium that has won the right to do work for the U.S. Agency for International Development (USAID) in countries of the former Soviet Union. The Washington partnership is also bidding for USAID work in the Southern Africa Region and other opportunities with the Inter American Development Bank.

In the latest published financial report, Crown Agents earned approximately £55 million in professional fees and reported an operating profit of just under £1 million. Advisory services accounted for approximately half of the professional fees charged. Procurement amounted to about 25% while financial and reimbursable costs made up the balance.

Crown Agents would not discuss their fee structures. Unless asked in the context of a specific proposal, they indicated that their consultancy rates would be in line with those charged by other EU firms in the international marketplace.

4.3.3 Consulting and Audit Canada

Consulting and Audit Canada (CAC) is a Special Operating Agency (SOA) of the Canadian Government Department of Public Works and Government Services. Their operations are somewhat similar to those of UNOPS in that they were spun off out of another agency, operate with a limited clientele, departments and agencies of the government, and act as a go-between between their clients and private contractors who carry out the project work. CAC services are available, on request, to other public sector and international organizations. CAC is theoretically restricted from competing with the private sector.

The agency uses the services of many Canadian companies, principally small and medium enterprises, to carry out consulting and audit assignments that have been contracted by government departments to CAC. A roster of individual consultants and firms is maintained by CAC for this purpose.

CAC provides consulting and audit services to governments and international agencies in about 40 countries. Contracting for these services, funded by the Canadian International Aid Agency (CIDA), is similar to services provided in Canada. The

agency uses individuals and companies to carry out assignments specified by CIDA. A separate roster of individuals and companies is maintained by CAC for international assignments.

Headquarters of CAC is located in the national capital, Ottawa. There are also four regional offices in other parts of Canada. All international work is coordinated and contracted by headquarters through the CIDA linkage.

Consulting and Audit Canada (CAC) provides services on a fee-for-service basis. Most assignments are preceded by a formal project proposal setting out the terms of reference for the assignment, the deliverables, the schedule and the proposed fees.

Generally, fees payable to CAC by the client consist of two parts:

- **The first part of the fees is set as a percentage of the value of the contract as described in the proposal. The percentage covers the 'social cost' associated with the regulations and restrictions imposed by the Canadian government system and the 'contracting risk' to CAC.**
- **The second part of the fees consists of the per-diem cost of the CAC personnel required to manage the contracting and monitoring of the contract people who will undertake the work. CAC per-diem rates are consistent with rates charged by Canadian consultancy firms who work in the public sector.**

While CAC is expected to remain within the limits of its capacity to earn revenue, CAC is not revenue dependent. Rather, as a special operating agency, it operates on a cost recovery basis. To support operations CAC may draw on a revolving fund, equivalent to a line of credit. Drawdowns from the revolving fund are expected to be repaid from future revenue.

CAC financial results are reported separately but as part of the budgetary estimates and financial statements of the Department of Public Works and Government Services. In the last fiscal year CAC turnover was about $USD 70 million.

4.4 The UNOPS Business Model

As noted earlier in this report, UNOPS evolved from the operational division of UNDP. At the time of its transformation into "a separate and identifiable entity in a form that does not create a new agency," a business model for the new UNOPS was implicitly established as follows.

UNOPS is an arm of the United Nations that provides project-management services in every field where the UN has a mandate – from landmine awareness to public sector reform, from informatics solutions to eradicating poverty. UNOPS is a revenue dependent organization whose client base is limited to United Nations organizations and Bretton Woods agencies. Other attributes of UNOPS includes the following:

- Required to operate within the rules and regulations of the United Nations;
- Day to day banking and treasury requirements are administered and managed by UNDP;
- Certain administrative, corporate and other support services are provided to UNOPS by the UN and by UNDP;
- Not permitted to secure funding directly from donor countries or private organizations;
- UNOPS personnel salaries (international personnel) are prescribed by the General Assembly; and,
- Reliance upon UNDP Field Offices to provide administrative support services, especially in areas where UNOPS does not have a field presence.

Thus, UNOPS was established with a business model that resembles, in part, that of a for-profit consultancy firm in the private sector. Such a business model is generally used by a number of governments to inspire 'bottom-line' discipline in their agencies without resorting to privatization. Thus, the quasi private sector entity has the advantages, and sometimes the disadvantages, of remaining within the system in which it operates. Yet at the same time, the entity is expected or required to exercise control over expenditures and keep them lower than or commensurate with their capacity to generate revenue.

The UNOPS business model was supposed to be based on the revenue dependency discipline of suitable private sector models. There are however notable differences, some of which have mitigated against the viability of UNOPS and its capacity to live within its revenues. Some of the problems noted with the UNOPS business model compared to what a private sector model might look like are as follows:

- The specification by the Executive Board that UNOPS work through UNDP and use UNDP systems;
- The requirement that the UNOPS client base be limited to the UN and the Bretton Woods agencies; and,
- The restriction from working directly with potential clients outside of the UN system. This has resulted in unnecessarily complicated arrangements in some cases and increased project delivery cost.

For several years the current UNOPS business model appeared to work well. However, two key factors began to undermine the viability of the model:

- The basic premise that UNOPS would be the administrative and implementing arm of UNDP changed with the advent of national and direct execution modalities; and,
- UNOPS management failed to provide the required leadership and resolve to manage the organization and adapt to the new environment and context.

The UNOPS business model has changed as a result of its recent financial difficulties. However, further change is required to render the UNOPS business model viable and sustainable. In the following sections (Sections 5 and 6), the report discusses the "as is" situation and the changes required, for the UNOPS business model in terms of:

- The market for, and marketing of, UNOPS services;
- Organizational Issues (including issues related to the organizational structure, human resources and performance appraisal and governance);
- Financing, Financial Practices and Financial Systems; and
- Procurement.

5.0 The Market for UNOPS services

International development agency budgets and trends over time were reviewed to identify observable trends in budgets and in delivery modalities. A series of interviews of UN clients and prospective clients as well as some non UN agencies was then conducted in New York, Copenhagen, Geneva, Rome, Kuala Lumpur, Bangkok and Nairobi to obtain first hand impressions of how UNOPS services have been used in the past; the level of satisfaction with the price, quality and timeliness of the services; and, most importantly, the likely demand and requirements for UNOPS services. The interviews included key clients or potential clients such as:

- UNDP
- UNFPA
- UNICEF
- Office of the Iraq Program
- Office for the Coordination of Humanitarian Affairs
- Department of Peacekeeping Operations
- Global Fund to Fight Aids, Tuberculosis and Malaria
- UNHCR
- Office of the High Commission for Human Rights
- IFAD
- UNEP
- UN Habitat

In addition to the personal interviews, a survey of existing and potential clients for major UNOPS services was conducted. Interviews were conducted with potential client agencies in Washington, Geneva, Rome, Copenhagen and Nairobi. A telephone and e-mail survey of a sample of UNDP offices at the country level was also undertaken.

Finally, the consultants reviewed the study completed by the Office for Internal Oversight Services in 2001, which also looked at client satisfaction with UNOPS services.

From the interviews and surveys, the review team assessed alternative scenarios for the market potential for UNOPS services for incorporation into simulation models of UNOPS operations. The lines of inquiry were related to development of parameters that define the potential level of business, which UNOPS may be expected to attract.

5.1 UNOPS Market Share and Trends

The overall potential market for UNOPS services was estimated recently by UNOPS to amount to over $114 Billion US Dollars, including all ODA provided by IFIs, the UN agencies and donor governments through their bilateral programs. In this context, the UNOPS "contract delivery" of programming amounted to about $637 Million in 2000, and has since dropped.

Exhibit 4 below describes the estimated ODA "market share" of UNOPS for 2000. The table indicates that UNOPS had a major share of UNDP program delivery - 13.11% for Core funds, and 32.04% for Trust funds. The market share of delivery for all other funds was quite small at less than one percent. Overall, the numbers indicate that UNOPS delivered about 0.56% of ODA programming. At first glance this would indicate that there is a lot of room for growth, however, while there are potential growth opportunities for UNOPS, these may be limited in the short term except in certain specialized areas identified below.

Exhibit 4

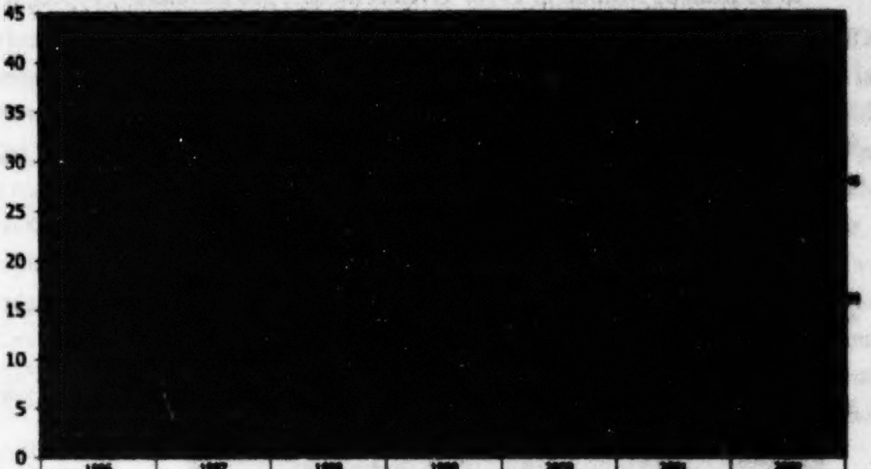
UNOPS Estimated Market Share

CLIENT		UNOPS	
CLIENT TYPE	**(2000) BUDGET ($ Millions)**	**UNOPS Share ($ Millions)**	**Market Share (%)**
UN Spec. Agencies & Programs	10,680	75	0.70%
UNDP Core Budget	1,670	219	13.11%
UNDP Trust Funds	412	132	32.04%
ODA from DAC Member Countries	53,678	105	0.20%
IFIs+Governments	48,104	106	0.22%
TOTAL	**$114,544**	**$ 637**	**0.56%**

Source: UNOPS 2003

Over the period since its formation in 1995, the client mix and sources of business for UNOPS has changed. The graphs below depict this changing situation.

Exhibit 5 Comparison of Income from UNDP and other clients
$ millions



	1996	1997	1998	1999	2000	2001	2002
UNDP	30.903	34.171	41.024	38.454	31.837	31.231	[illegible]
UN, IFAD & Other	7.343	6.35	9.11	13.416	16.063	15.969	[illegible]

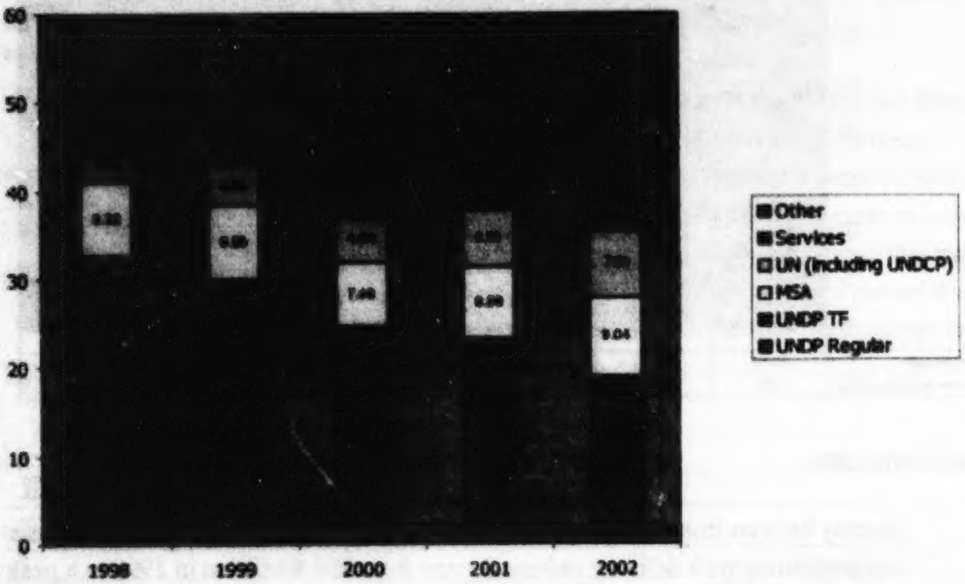
Source: UNOPS 2003

As may be seen from the chart above, income from UNDP (which is more or less commensurate with delivery volumes) grew from $30.9 Million in 1996 to a peak of $41 Million in 1998, from which it declined to about $28 Million in 2002. Conversely income (and delivery volumes) from other UN, IFI and other clients has risen from $9.1 Million in 1998 to about $16 Million in 2000, and has remained stable at that level.

As explained below, the most likely trend at present is for some further decline in UNDP volumes. However, if UNOPS can reduce costs and improve its quality of service this decline may be slowed or avoided. As explained later in this Section there are also growth opportunities for UNOPS within UNDP, especially in the global programs. The volume of non-UNDP activity has the potential to grow, but this will require proactive market development. The extent to which the UNDP volume can be replaced with non-UNDP business is not clear at present.

Finally, Exhibit 5 displays the changing mix of UNOPS income by source. In 1998 the UNDP regular budget (core) program delivery accounted for $23.4 Million of the approximately $50 Million (46%) in stated income. This has dropped to $12 Million of $43 Million (28%) in income in 2002. Similarly, UNDP trust funds have dropped to $6 from $9 Million in 1998. Overall income has therefore dropped, with UNDP accounting for the entire $7 Million decline.

Exhibit 8: UNOPS Income by Source of fund ($ million)



Source: UNOPS 2003

5.2 Client Trends

This Section describes overall trends in the UN and IFI market for UNOPS services. It also describes the specific trends observed for each of the major UNOPS clients.

Trend to National Execution, Direct Execution and to Sector Wide Approaches

One of the most significant trends affecting UNOPS, especially with regards to UNDP business, has been the trend to national execution (NEX). This trend has been evolving since the mid-1990s and entails the implementation of projects by recipient governments. It eliminates the need for an implementation agency such as UNOPS, as the recipient governments handle implementation.

Where the government is not capable of national execution – especially for UNDP projects - execution has been handled by the UNDP country offices using what is known as direct execution (DEX). Direct execution, according to interviews with UNDP officials, appears to be an increasing trend as national execution is problematic in many countries, especially those in crisis. Although theoretically UNDP (under DEX) or the recipient government (under NEX) can still contract UNOPS for implementation activity there are impediments to doing so. First, given UNDP's own budgetary pressures at the country office level, there is an incentive to capture the administrative charge revenue for projects where possible to help pay for the country office overhead. Second, if a national government under NEX wishes to subcontract UNOPS to assist on implementation, the country must contract UNDP (which will take a percent of the administrative fee), before UNOPS can be contracted.

The above two factors have been inhibiting using UNOPS for either national or direct execution implementation, unless the UNDP country office does not have the capacity in the first case and the country is willing to pay the extra administrative fee in the second case.

A number of past studies of UNOPS have noted this issue, but the Executive Board has not taken action.

> ***Recommendation No. 1:*** *The Executive Board should change the UNOPS mandate to permit implementation of projects and programs on behalf of recipient governments for donor funded programs and projects.*

A second trend that may also reduce the potential market for UNOPS services in the future comprises the trend toward Sector Wide Approaches (SWAP). The SWAP is similar to the National Execution approach, as the recipient government is provided funding to carry out a program that is partially or fully funded by donors. The recipient country then implements the project with the participating donors involved in annual program reviews and evaluation activities. The SWAP approach reduces, but does not necessarily eliminate the need for an implementation organization such as UNOPS, however, it does mean that services provided by UNOPS would be most appropriately targeted at support to the recipient country and in capacity building.

Trend to Increased Delivery of Services in Countries in Crisis

One of the most notable recent trends has been the increased number of crisis situations around the world, that have required intervention by UN specialized agencies and by UN member state peacekeeping missions. UNOPS has participated in many of these through its demining activities, and through special reconstruction activities with agencies such as UNICEF. UNOPS was requested by the Office of the Iraq Program (OIP) to execute certain programs financed from the Food for Oil Program.

This has become an increasingly important area for UNOPS as increasing numbers of crisis situations have emerged. Future opportunities exist with Agencies such as UNHCR, DPKO in demining, possibly with UNDP in demining and with UNICEF in countries in the reconstruction phase. Work undertaken by the UNOPS RESS Division in Geneva has especially focused on post-conflict crisis situations.

Discussions with a number of UN Agencies highlighted the increased importance of humanitarian and post-conflict situations and the decline in conventional ODA. The UN Agencies are uniquely positioned to provide services in these situations given their neutrality in comparison to bilateral donors.

UNOPS has demonstrated an ability to quickly establish a functioning office in countries in crisis and to be able to respond to program needs in a flexible and cost efficient way. This has positioned UNOPS well as a potential service supplier to the key UN Agencies that may not have the staff, ability or flexibility to respond to the rapidly emerging needs in post conflict situations.

Conversely, agencies such as UNDP and DPKO have their own administrative units against which UNOPS is essentially competing with for business. To the extent that UNOPS can provide faster, better and more cost-effective services it will be contracted to provide project implementation services. There is a risk, however, that these agencies will be pressured by their management to utilize their own administrative services wherever possible, especially as all of the UN agencies are under pressure with regards to their core operational funds.

> ***Recommendation No. 2:** The Executive Board and the Secretary General should once again encourage the UN Secretariat, UNDP, and other UN entities to consider using UNOPS as an executing/ implementing agency where practical.*

Pressure to Reduce Costs

Another trend that has become noticeable during the review is the strong pressure to reduce administrative overhead charges for project execution and implementation. This is especially true of UNDP, which indicated that donors have been pressuring UNDP to reduce the overall administrative percentage charged. An example of this is the Montreal Protocol, whose Board has mandated a maximum percentage that can be applied to projects. As a result, the Montreal Protocol unit of UNDP has requested a reduction in the administrative charge levied for projects implemented by UNOPS, which so far UNOPS has been unable to provide, since doing so would also entail accepting implementation without ensuring cost recovery. The trend to reduced allowances for administrative costs appears to be strongly entrenched due to budgetary pressures on the part of many donor countries. This is likely to continue. The implication is that UNOPS will have to reduce its own administrative costs and to provide very cost effective implementation. The implication is that net margins on all potential business areas are likely to be successively reduced over what was available a few years ago.

Trend to Request Higher Value Added

Some of the UN clients interviewed indicated that their future needs will entail a need for higher value added of UNOPS services. What this implies is a need to handle not only administrative, contracting, budget control and financial reporting, but also to assess emerging results on projects in accordance with the principles of results based management and to support capacity building of project or program recipient countries. This will be a requirement of IFAD in future delivery agreements. UNOPS will have to ensure that their service offerings provide not only the ability to monitor and track results but also substantive support such as impact analysis, gender equity, etc.

5.3 Client Satisfaction and Trends

5.3.1 Client Satisfaction

As part of the study the consulting team interviewed UNOPS clients to discuss their level of satisfaction with UNOPS services. This was based on discussions with both UNDP and non-UNDP clients in a number of UNOPS locations. An additional survey of seven UNDP Resident Representatives was also completed by telephone. The results were compared to the OIOS study completed in 2001.

The OIOS study surveyed 20 non-UNDP clients of UNOPS. An additional survey of 120 UNDP Resident Representatives was also carried out. The results of the OIOS study are summarized below.

It should be noted that UNOPS provides a range of services to a range of clients in different program and geographic areas. The UNOPS services vary from simple administrative functions such as contracting consultants, and financial processing for projects, to the provision of technical advice on complex projects, project formulation, and contracting capital works in very arduous country situations. The experience of client organizations and the individuals interviewed will vary depending on the nature of the services provided by UNOPS and their other experiences.

Overall, the OIOS study indicated that the quality of services rated by non-UNDP clients was estimated at 4.03 on a scale of 5, meaning that clients were generally satisfied with UNOPS. Ratings were provided for expertise, cost-effectiveness, timeliness, and proactivity of UNOPS. Comparing the results of the OIOS survey of non-UNDP clients to the UNDP Resident Representative survey indicated that the UNDP satisfaction rating was 2.74 Clearly, the level of satisfaction of UNDP Resident Representatives with UNOPS services was much lower than for non-UNDP clients.

Exhibit 7

Satisfaction of UNOPS Clients

	Non-UNDP Clients	UNDP Res Reps
Expertise	3.95	3.09
Cost Effectiveness	4.24	2.39
Timeliness	3.84	2.46
Proactive Client orientation	4.11	2.53
Average Rating	4.03	2.61

Source: OIOS July 2001

Non-UNDP clients generally indicated during the Independent Review, that they are satisfied with UNOPS services. They generally like the responsiveness, and speed of UNOPS in comparison to their own agencies. Of critical importance to many of them is the need to move quickly "outside the UN bureaucracy" to get things done. In the opinion of many interviewees, UNOPS has shown the flexibility and responsiveness to get things done.

Conversely, the assessment of UNOPS services by UNDP divides into two camps. Many UNDP staff are quite positive about UNOPS, have used them in the past, and will likely continue to use them. In many of these cases, which include both Global Programs in New York as well as country field offices, the UNDP country office or program does not have its own staff, and must contract out delivery.

Other country offices and some senior UNDP staff complained about deteriorating UNOPS services, poor responsiveness, high costs, and insufficient flexibility. In some cases UNOPS is in a sense in direct competition with the country office or the UNDP program for a portion of the administrative budget for a project. This may be one of the reasons for responding negatively to the Independent Review. However, it is clear that to maintain market share in UNDP, UNOPS will have to ensure that staff are client focused, and that services provided are both priced competitively and are perceived to be cost effective to the UNDP clients.

During the study the following positive aspects of UNOPS services emerged:

- The availability of a roster of excellent contractors on the ground that can be mobilized. Of particular note were the staff in Afghanistan and Iraq working with UNICEF;

- Although there are complaints about costs, clients generally acknowledge that UNOPS is in most cases cost-effective. Responses of some UNDP managers was an exception to this general finding;

- Generally, UNOPS Portfolio Managers have a reputation for being responsive, knowledgeable and hard working; and,

- There is a general perception that UNOPS is more business-like but also offers the advantage of being part of the UN system with the inherent advantages of easier entry and access to the country and to government officials.

It is interesting to note that many clients select UNOPS as a service provider based on individual relationships. Therefore, UNOPS Portfolio Managers who have established a good working relationship will retain client confidence even if they move to a new geographic location. This was particularly evident with members of the Environment Division that moved to Geneva, but who continue to service the UNDP Global Environment Funds in New York.

Conversely clients indicated that access to the UNOPS Portfolio Manager is a critical part of the service UNOPS provides. Therefore the decision to decentralize or not to decentralize out of New York or Geneva should be based both on economic as well as client service considerations. If a client is in New York and wishes to have the Portfolio Manager within reasonable proximity, then the portfolio manager should remain in New York. If the client is in Nairobi, it makes sense to decentralize the portfolio manager to Nairobi where client contact and service can be optimized.

> ***Recommendation No. 3:*** *UNOPS should consider decentralizing Portfolio Management Teams to the geographic location that will provide the best service to clients.*

There are some areas that were considered ***problematic*** and that will have to be improved upon:

- A number of client organizations indicated that they feel that pricing arrangements are generally inflexible. Clients noted that there did not appear to be either transparency or logic in the UNOPS pricing of services. They noted that some divisions have been more flexible and more reasonable than others. Clients would like to see more transparency in pricing and a closer matching of charges to actual costs. Given the increased pressure on UN agencies to reduce administrative charges, the ability to reduce costs, be transparent in pricing, and to better match costs and price of service appears to be paramount.

- Some clients also indicated that although UNOPS is responsive and provides relatively fast turnaround by UN standards, there are still bottlenecks in decision-making because of a need to go to New York for many decisions. UNOPS will have to review its delegations and its procedures and where possible ensure that decisions are adequately responsive and streamlined.

- Some clients have noted a decline in the quality of service provided by UNOPS. Some attribute this to the recent financial problems that UNOPS has had. This has been manifested in some situations by an impression that people assigned to a client are actually working on other projects, or that there is fewer staff assigned to a project than the number originally proposed by UNOPS. There is a risk that if the level of service is cut below what is required to deliver the project, there could be a loss of business for UNOPS;

- Some clients complained about competition and fragmentation of UNOPS representation. They felt that dealing with a number of competing divisions has negatively impacted on the quality of client interface. Most clients wish to see one overall point of contact; and,

- Importantly some clients indicated that UNOPS systems and practices in project management and reporting are no longer state-of-the-art.

The issue of ***UNOPS branding and competition with UN agencies*** for funding is also an issue with some agencies, particularly UNDP. This was a more significant issue in the past and revolved around a perception that UNOPS was not giving adequate profile to its clients, but rather indicating that it was the main executing agency on some projects. This has been partially resolved, however some concerns remain. Interestingly some Agencies want UNOPS to have a profile as a partner in project execution and implementation as it helps them attract funding.

Perhaps one of the most common recurring complaints was with regard to the UNOPS financial reporting systems. One of the most important needs of many UN Agencies entrusted with donor funds to execute specific projects or programs is to be able to report periodically on both financial and substantive progress. Reporting requirements also vary by donor and have become more complex with the trend to results based management, where outcomes of projects must be reported in addition to financial expenditures.

This has been an area of weakness, as discussed in the Section on financial management. The UN processes and the IMIS financial system can be slow to pick up expenditures. In addition, UNOPS has had difficulty in many instances responding to the different reporting requirements of donors. The move to the People Soft ERP system should improve this – providing UNOPS makes adequate investments in systems development and training. ERP also constitutes a strategic threat, as it will now be easier for clients to do some of the administrative transactions themselves.

The implication is that UNOPS will have to be able to provide value added services in project reporting and monitoring where requested to meet the requirements of results based management.

Finally, some of the client interviewees noted that the concept of international cooperation is changing, as is evident in the aforementioned SWAPS and NEX and the trend to results based management. It is important that UNOPS stay abreast of the changing developments in modalities for international cooperation and ensure that their approaches, staffing and services are consistent with the new requirements.

> ***Recommendation No. 4:*** UNOPS *ensure that it maintains a strategic assessment capability to constantly reassess the needs for its services and to ensure that it maintains the services and capacities required to keep it current with the evolving needs of its clients.*

5.3.2 Competitive Factors

The Independent Review looked at the competition for UNOPS services. The UN international cooperation program delivery market place has changed quite dramatically since 1995. UNDP, which had significant core funding has seen that funding drop, and has been forced to rely more and more on designated funds or trust funds for its programming. Special purpose funds have generally allowed for a 13% administrative charge. When UNOPS first began business, the 13% was usually split between UNDP, which had the overall project execution responsibility, and UNOPS, which was the administrative and implementing agency. With the drop in core funds, UNDP programmes and UNDP country offices have also begun to rely on administrative cost elements to help pay their overheads.

At the same time, donors have been reducing the level of administrative charges that they deem permissible. For example, the Board of the Montreal Protocol has reduced its administrative allowance for some recipient countries. UNDP, which executes the project on behalf of the Montreal Protocol Board, has had to eliminate UNOPS from implementation in countries, which cannot support the 8% charge levied by UNOPS. Therefore one of the competitive factors has been the internal competition for the administrative budget allocated for projects. As these budgets have been squeezed by donors, UNDP and other agencies have looked at their own administrative units as an alternative, even if the service offered is not as efficient, flexible or of high quality.

In addition, many of the UN organizations have internal administrative units or organizations that are capable of handling project implementation, and are therefore competitive with UNOPS, although the quality of service may not be as high. For example, IAPSO, an affiliate of UNDP provides procurement services for UNDP projects out of Copenhagen. Recently, IAPSO in an attempt to achieve revenue cost recovery objectives has offered expanded services that parallel the project management services that UNOPS provides. This may in future act to further undermine the UNOPS market in UNDP, although at present it does not appear to be a serious threat.

In some areas, there is private sector or NGO competition as well. For example, UNICEF uses NGOs in some of its implementation tasks in countries in distress. The Global Fund for Aids (a UN affiliated organization) draws on competitors in the NGO, private sectors as well as the UN system as Local Funding Agencies for its projects.

Our review indicated that UNOPS has generally been cost competitive in most, but not all, situations where it has had to compete. However, it should be noted that it does do not always have appropriate costing information available when writing proposals.

Most agencies that have used UNOPS have done so because of the capacity of UNOPS on the ground, the fact that it is a UN agency and because it is perceived to be more flexible and responsive than their own agencies. Generally there is pressure on costs, and the agencies have to feel that they are recovering their own costs to the greatest extent possible.

Another factor of note is that most UN agencies have very poor cost information. Therefore they do not really know what their costs are and hence cannot really compare internal versus UNOPS costs of implementation.

The above discussion would indicate that much of UNOPS competition is really from internal administrative groups in the Agencies themselves. The competition will not be based on a realistic analysis of the most cost effective alternative, but rather on such issues as capability to do the job, internal political factors that would tend to favour internal resources, especially given the lack of good information on alternatives.

5.4 Future Needs and Opportunities

The section below examines the trends for the key UNOPS clients in terms of the past and future project demand for UNOPS services, past levels of satisfaction with UNOPS services, and future requirements and prospects.

UNDP

As described earlier, UNDP comprises the dominant client for UNOPS services, although the UNDP use of UNOPS services has been gradually trending downwards. As UNDP is a large complex organization, our study required interviewing UNDP officials in New York as well as the Resident Representatives in a number of Country Offices. UNDP programs at the Global Level and at the Country Level, and the trends and requirements differ for each one respectively.

UNDP, the key UNOPS client has seen its overall income grow from $1.8 Billion in 1992 to $2.8 Billion in 2002. During that time frame the composition of its income has shifted. In 1992 Core Income amounted to about $1.2 billion or about 67% of its income, whereas in 2002 core income dropped to about $800 Million or 28% of income. The remainder has gone to trust funds through co financing and cost-sharing arrangements. These funds are provided by donors for a specific purpose and are no longer available for general funding of UNDP overhead, with the exception of the approximately 13% administrative fee that is permitted for program delivery.

As was indicated earlier, much of the UNDP program delivery is based on Trust Funds. Execution is generally through Global Programs in New York or through UNDP Country Offices.

Generally, UNDP Global Funds in New York have used UNOPS extensively in the past for program implementation. The Global Environment Facility is one of the major UNOPS clients. The survey indicated that the volume of business in this area is likely to grow for UNDP, and could increase slightly for UNOPS, provided that UNOPS can reduce its cost structure and maintain and improve its level of service. Key program opportunities include Water Projects, Biodiversity Program, The Global Cooperation Framework, The GEF Small Grants Program and the Global Environmental Facility (which is slated to double from $100 Million to $200 Million).

UNDP units involved in crisis situations were more negative on the costs and service provided by UNOPS, and appear to be less inclined to use UNOPS in the future.

UNDP Country Offices represent a mixed picture, depending on such factors as their past experience with UNOPS, and other factors such as competition for the administrative budget resources for project delivery. Generally, in many cases UNDP offices say they will use UNOPS for implementation provided they can lower their costs and provide excellent service delivery. Some, for internal reasons, may opt to use IAPSO or their own internal resources.

IFAD, another key UN client for which UNOPS does loan supervision, has experienced a flat budget of about $400mm and expects this to continue. IFAD program delivery is likely to be flat, but IFAD is currently reviewing UNOPS charge rates with the understanding that the charges levied ($48,000 average per project) do not allow UNOPS to recover their costs, nor to meet the increased level of service that IFAD will require in the future.

UNICEF expects continued modest budget growth of about 5% per year. Prospects for increased work with UNICEF are good and UNICEF and UNOPS are actively exploring a number of new arrangements for countries in crisis. Currently UNICEF and UNOPS have worked together in Afghanistan and Iraq and are prospectively looking at selected countries in Africa.

UNOPS is currently either negotiating or actively developing business with such agencies as ***ILO, UNHCR, OCHR, UNEP*****, and the World Bank**, as well as a number of smaller agencies.

Overall, there are a number of major trends that can either promote or reduce demand for UNOPS services. Since its business acquisition activities have been restrained by the Executive Board it has not sought implementation contracts on behalf of DAC countries or recipient governments for contract implementation. Given the revenue dependency nature of UNOPS it will be necessary for its mandate to be broadened somewhat to permit it to achieve appropriate volumes, while at the same time avoiding UNOPS competing for program funding.

Opportunities for new market services are:

- Provide administrative support for many UN agencies such as the UN Secretariat, UNDP, UNFPA and others regionally;
- Providing enhanced advisory services for small agencies;
- Providing implementation services directly for UN member governments;
- Providing increased services to agencies concerned with post-conflict, peacekeeping and humanitarian issues.

5.5 UNOPS Marketing Approach

During the course of the Review it became apparent that the market demand for UNOPS services is changing in terms of the agencies and geographic locations where UNOPS services will be required. Over the last few years the volume of business has declined due to a number of factors. In addition, UNOPS remains heavily exposed to

UNDP as its major client. The Review indicated that the volume of business with UNDP will be more volatile and more competitive in the future with internal UNDP resources and with UNDP organizations such as IAPSO. To ensure a continuation of its market share UNOPS:

- Has to reduce costs and streamline its business practices;
- Improve the quality of service;
- Maintain close contact with its current clients (especially UNDP) as well as potential clients; and,
- Be permitted to enlarge its potential market to a broader array of non-UN organizations without going through UNDP (providing the contracts are purely for implementation and not fund-raising).

The need to better service clients and to proactively seek new business (within the constraint of its mandate to not fundraise) will be a critical function for UNOPS in the future. Therefore each operating division, as well as the corporate level will have to proactively scan the environment for new business opportunities, develop strategic marketing plans, ensure adequate promotion, and proactively seek new business. Some of the divisions – such as RESS and the KL Division are already doing this. The Environment Division has also been successful in the past at proactively seeking new opportunities.

In the opinion of the Independent Review team, UNOPS can successfully acquire new business, providing it restructures to provide cost effective, state-of-the art project management services, and develops a private sector marketing and client service orientation.

Nonetheless, it should be realized that this type of business is inherently volatile and that opportunities come and go. UNOPS will have to develop the flexibility to increase and reduce resources in concert with the changing demands in the market place.

***Recommendation No. 5:** UNOPS develop a business development function staffed with an individual with extensive experience in business development. In addition future performance indicators for both Division Managers and Portfolio Managers should emphasize business development activities.*

6.0 UNOPS Operations

In the proposal Terms of Reference and in the Methodology Report presented to UNOPS, the Management Coordination Committee and the Executive Board of UNDP, a number of issue areas and associated lines of inquiry for the independent review were proposed and discussed. The lines of inquiry were further refined during the initial stages of the review. They included:

- The organizational structure and human resource management;
- Financial practices and systems;
- Procurement;
- Governance; and,
- Assessment, through financial modeling, of the viability of UNOPS.

This section of the report presents the results of the review with respect to the issue areas listed. In the sub-sections, recommendations are made for changes to UNOPS operations.

6.1 UNOPS Organizational Structure

Interviews were conducted either in-person or by teleconference with all Division Chiefs. The Human Resource Specialist of the Independent Review Team held consultations with staff either in-person (New York, Nairobi and Kuala Lumpur) or through videoconference in the case of Abidjan, Copenhagen and Geneva.

Staffing data contained in this section was provided by the Division of Human Resource Management and is current as of July 30, 2003. The figures represent all staff members under the 100/200/300 Series of the Staff Rules, including Junior Professional Officers (JPOs).

6.1.1 UNOPS Organizational Structure

UNOPS is a hierarchical structure, headed by an Executive Director, and supported by a Deputy Executive Director & Director of Operations (DED). The Executive Director is accountable to the Secretary-General of the United Nations and to the UN

Member States through a number of executive and management advisory bodies such as the Executive Board and the Management Coordination Committee.

The Executive Director and the Deputy Executive Director & Director of Operations along with the External Business Unit and support staff comprises the Executive Office. (See "UNOPS Organization Chart and Staffing Numbers" on the following page).

Governance Structure

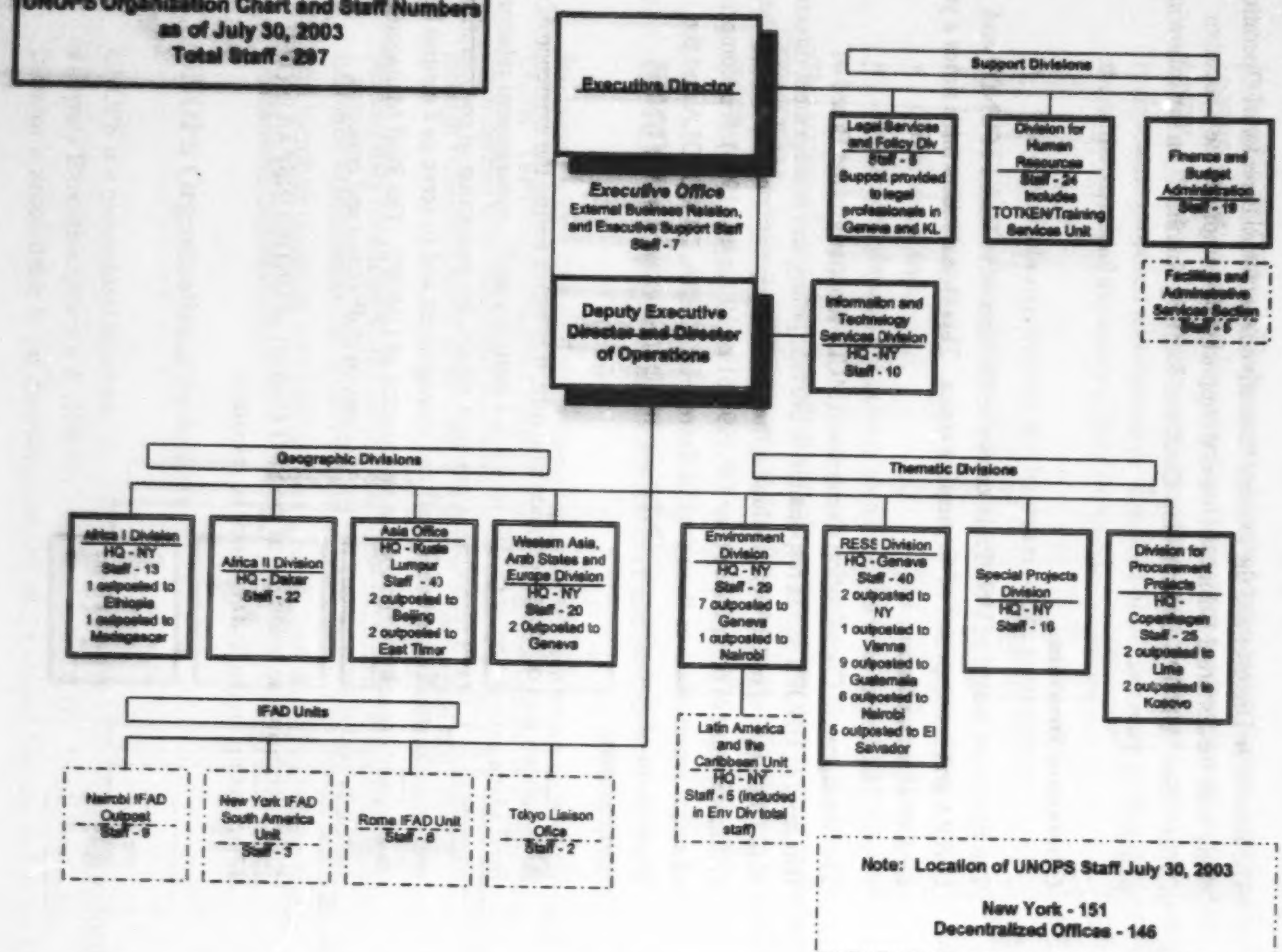
The Executive Board of UNOPS is known as the Executive Board of UNDP and UNFPA and is comprised of 40 member states. This Board meets three times a year for formal presentations.

The Management Coordination Committee (MCC) functions as the Board of Directors of UNOPS and is responsible to provide policy and management direction in the functioning of UNOPS, including the setting of operational policy, facilitation and monitoring of compliance (See DP.1994/61 of 19 August 1994). It is comprised of senior representatives from the UN Secretariat (DESA, DPKO, OLA and the Department of Management), UNDP and IFAD. It is chaired by the UNDP Administrator.

Although not part of the governance structure, it is worth noting the existence of the Staff Management Forum (SMF) which is a statutory staff - management relations committee of UNOPS responsible, amongst others, for promotion of co-operation and mutual understanding between staff and management and to serve as a neutral body in an advisory capacity to the Executive Director of UNOPS. The Staff Management Forum provides commentary to management on staff issues and concerns.

Staff members also belong to of the Staff Council of UNDP/UNFPA/UNOPS. Membership on the Staff Council is voluntary.

UNOPS Organization Chart and Staff Numbers as of July 30, 2003
Total Staff - 297


Executive Director
Executive Office
External Business Relation, and Executive Support Staff
Staff - 7
Deputy Executive ~~Director and Director~~ of Operations
Support Divisions
Legal Services and Policy Div
Staff - 5
Support provided to legal professionals in Geneva and KL
Division for Human Resources
Staff - 24
Includes TOTKEN/Training Services Unit
Finance and Budget Administration
Staff - 19
Facilities and Administrative Services Section
Staff - 6
Information and Technology Services Division
HQ - NY
Staff - 10
Geographic Divisions
Africa I Division
HQ - NY
Staff - 13
1 outposted to Ethiopia
1 outposted to Madagascar
Africa II Division
HQ - Dakar
Staff - 22
Asia Office
HQ - Kuala Lumpur
Staff - 43
2 outposted to Beijing
2 outposted to East Timor
Western Asia, Arab States and Europe Division
HQ - NY
Staff - 20
2 Outposted to Geneva
IFAD Units
Nairobi IFAD Outpost
Staff - 9
New York IFAD South America Unit
Staff - 3
Rome IFAD Unit
Staff - 8
Tokyo Liaison Office
Staff - 2
Thematic Divisions
Environment Division
HQ - NY
Staff - 29
7 outposted to Geneva
1 outposted to Nairobi
Latin America and the Caribbean Unit
HQ - NY
Staff - 5 (included in Env Div total staff)
RESS Division
HQ - Geneva
Staff - 40
2 outposted to NY
1 outposted to Vienna
9 outposted to Guatemala
6 outposted to Nairobi
5 outposted to El Salvador
Special Projects Division
HQ - NY
Staff - 16
Division for Procurement Projects
HQ - Copenhagen
Staff - 25
2 outposted to Lima
2 outposted to Kosovo
Note: Location of UNOPS Staff July 30, 2003
New York - 151
Decentralized Offices - 146

UNOPS Divisional Structure

Within UNOPS, three support divisions headed by Assistant Directors report directly to the Executive Director. These support divisions are:

- **Legal and Procurement Support Division (LPSD)**
- **Finance, Budget, and Administration Division (FBA) (The Facilities and Administrative Services Section (FASS) reports through FBA)**
- **Division for Human Resources Management (DHRM)**

The Information and Technology Services Division (ITS) and eight operational divisions are headed by Division Chiefs who report directly to the Deputy Executive Director and Director of Operations.

The eight operational divisions are:

- **Africa I**
- **Africa II**
- **Asia Office**
- **Western Asia, Arab States and Europe Division (WAASE)**
- **Division for Procurement Projects (PRP)**
- **Environment Division (ENVP)**
- **Rehabilitation and Social Sustainability Unit (RESS)**
- **Special Projects Division (SPD)**

In addition, the Deputy Executive Director & Director of Operations has direct operational responsibility for three IFAD project implementation units – one for South America headquartered in New York, one in Rome and one in Nairobi. He also directly supervises the Tokyo Liaison Office.

The organizational structure is represented in the "UNOPS Organizational Chart and Staffing Numbers" found on the previous page.

Operational Divisions

At the present time, UNOPS divisions are characterized as "geographic" or "thematic". Geographic divisions include Africa I, Africa II, the Asia Office and the Western Asia, Arab States and Europe Division. The New York, Rome and Nairobi units serving IFAD, as well as the Tokyo Liaison office would also be considered geographic. The rationale for the geographic divisions is that they are located close to project activity and hence can best serve the clients.

The ***geographic divisions*** are aligned as follows:

Africa I is based in New York, to maintain a strong link with the African bureau of UNDP, its main client. Its geographic focus is south and central Africa. Its staff complement is 13 including staff outposted to Ethiopia (1) and Madagascar (1).

Africa II is based in Dakar. Until very recently this division was located in Abidjan, as was the African Development Bank. This office is structured around two clusters: one to manage IFAD projects, the other to implement UNDP projects and other UN projects. Its geographic focus is western and central Africa. The present staff complement has been impacted by the move to Dakar. The new office will have a staff complement of 22.

The Asia Office is located in Kuala Lumpur, and serves the Asia/Pacific region from Pakistan to the Cook Islands. Clusters focus on IFAD project management and other client project implementation. The Asia Office also handles the corporate imprest reconciliation function, and has staff outposted to Beijing (2) and East Timor (2). The staff complement of this office is 40.

The Western Asia, Arab States and Europe (WASSE) Division is located in New York, with a small outpost in Geneva (2 staff). It serves a region eastward to Afghanistan. The WASSE division complement is 20

The IFAD units in New York (3 staff), Rome (8 staff) and Nairobi (9 staff) serve the IFAD office in Rome and IFAD projects in eastern and central Africa and South America.

The Tokyo Liaison Office is located in Tokyo and has a staff complement of 2.

The ***thematic divisions*** are based on the perceived need for specialized services to meet the needs of a variety of clients. The thematic divisions consider their services to be available in all regions.

The Division for Procurement Projects (the Copenhagen Office) specializes in procurement, and has an office in Lima, Peru (2 staff), and outposted staff in Kosovo (2) to handle its procurement projects there. The staff complement of this division is 25.

The Environment Division is located in New York, with outposted staff in Nairobi (1 staff) and Geneva (7 staff). It also incorporates the New York based Latin America and Caribbean Unit (LAC) (5 staff). The Environment Division is focused on the implementation of projects and programs of UNDP and UNEP. Its staff complement is 29.

The Rehabilitation and Social Sustainability Unit (RESS) is located in Geneva, with a focus on rehabilitation and social integration programmes in countries/regions with societies in crisis and in transition. It has outposted personnel in Nairobi (6 staff), in New York (2 staff), in Guatemala (9 staff), in El Salvador (5 staff) and Vienna (1 staff).

The Special Projects Division is located in New York, and specializes in demining projects in all regions. It has a staff complement of 16.

6.1.2 Staffing Levels

At the current level of 297 staff (July 30, 2003), UNOPS is a relatively small entity within the UN system. The current staffing level is roughly equivalent to the staffing levels in 1998. As a result of the budget reduction exercise undertaken in 2002, staff hiring and reclassifications have been put on hold except in specific circumstances. Positions vacated through retirement or other forms of attrition (staff finding other positions) may not be filled.

Exhibit 9 below provides information on the "rise and fall" of the staffing levels in the period between 1999 and 2002.

Exhibit 9
Rise and Fall of Staffing Levels

	1997	1998	1999	2000	2001	2002
	December	December	December	December	December	December
ASG	1	1	1	1	1	1
D-2	1	1	1	1	1	1
D-1/L-6	7	12	12	15	17	10
P-5/L-5	28	29	37	38	47	38
P-4/L-4	22	37	45	46	38	30
P-3/L-3	13	19	15	15	36	38
P-2/L-2	20	23	41	51	32	29
G-7	10	8	10	10	10	8
G-6	43	52	57	59	69	61
G-5	61	78	96	103	94	87
G-4	26	42	39	38	32	20
G-3	13	9	9	10	7	4
G-2	1	3	6	8	7	6
TOTAL	246	314	369	395	391	333

*(JPOs, National Officers and ALD personnel in the equivalent level are included)

The rise and fall of staffing levels are shown graphically below.

Staff levels have continued to fall, from 333 in December 2002, to 317 in May 2003 to the present level of 297 in July 2003. From anecdotal information collected for this review, it appears that the staff burgeoning between 1998 and 2002 was a result of inflated delivery figures put forward at the request of management. This has had a negative impact on both the UNOPS financial reserve and the morale of the staff.

As reported elsewhere in this report, income of approximately $40 million in1997 increased to approximately $50 million in 1998 and then leveled off and subsequently decreased back to about $40 million. At the same time, hiring continued, with high staffing levels of 395 and 391 reached in 2000 and 2001.

This staffing trend contributed substantially to the drawdown on the cash reserves, as well as to the impression that UNOPS was not meeting its delivery targets. Because the build up in staff was matched by a decline in revenue and income, the inevitable result was a need for severe staff reductions in 2002, which caused the demoralized workforce and loss of focus on the work at hand discussed elsewhere in the report.

As indicated by the above Exhibit and Chart, staffing figures are close to the 1998 figures when UNOPS income was close to $50 million. Income for 2003 is expected to be in the range of $42-43 million.

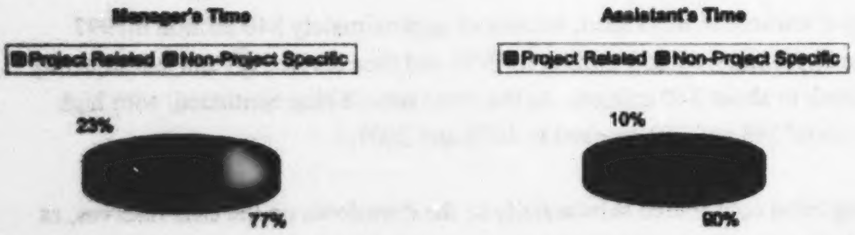
Although staffing levels are still high in relation to projected income, the expectation is that staffing figures will continue to decline due in part to the hiring freeze and staff seeking other positions.

Portfolio Managers and Portfolio Assistants

The portfolio manager/team is the essential element of the UNOPS structure. It is through the portfolio managers and their teams that project delivery is executed and income is generated. In addition to other activities within the organization, the portfolio manager/portfolio team maintains ongoing client contact during the delivery phase, manages the field specialists/project managers and is responsible for project reports.

The Independent Review Team conducted a survey of portfolio managers and portfolio assistants for the study to determine activity levels and business focus. While the sample was small and spread across a number of divisions, it provides an indication of the time spent on project related work and non-project related activity, and business development, shown in Exhibit 10 below.

Exhibit 10 Time Allocation for Portfolio Managers and Assistants - Project and Non-Project Activities



As shown in Exhibit 10, portfolio managers spend approximately 77% of their time on project related activity (administration/execution, meetings, and missions/travel) and 23% of their time on non-project related activities including business development, training & staff development, UNOPS internal activities and other activities. Examples of other activities include training of rotating staff and interagency meetings.

Portfolio assistants spend approximately 90% of their time on project related activities (primarily administration and internal meetings) and 10% of their time on other activities. The time portfolio managers and portfolio assistants spent on various project and non-project related activity varied from division to division, reflecting the variety of work and client requirements.

6.1.3 Organizational and HR Issues

This section reports on the key findings and recommendations related to organizational and HR issues. The following issues are addressed:

- Inter-divisional Competition
- Staffing Flexibility
- The Human Resource Management Function
- Gender Issues
- Standardized Practices and Procedures
- Employee Performance Appraisal and Motivational Issues
- Training and Workload Assignment
- Performance Management and Accountability

Inter-divisional Competition

One of the primary organizational issues identified by the Independent Review Team (as well as other studies) is the unhealthy inter-divisional competition within UNOPS. Performance success is tied to only one indicator – value of project delivery on an annual basis. Competition for projects by the divisions leads to internationally competitive pricing practices as well as resistance to information and resource sharing. Internally the mechanism put in place to allocate projects (PAC) is not transparent, leading to the perception that project allocations to divisions and portfolio clusters are sometimes arbitrarily made by the division chiefs.

The number of divisions compounds this divisive internal competitive environment. The rivalry between thematic and geographic divisions has become very apparent to clients, with clients finding themselves in the middle of UNOPS divisional project ownership battles. As might be expected, the negative impressions caused by this competition are difficult to dispel, and have been cited as reasons not to use UNOPS in the future.

UNOPS has to become increasingly flexible, building on its reputation for speed and a "can do" attitude. A contributing factor to this position will be the ability to share lessons learned/best practices, providing clients with well-grounded expertise and established quality practices. There are a number of specific areas where "the divisional silos" must be broken down to enhance the overall cost efficiency, client focus and service quality of the organization. The organization must develop an ability to:

- Share Lessons learned and best practices in client service delivery;
- Share UNOPS knowledge and capacity for preparing proposals/bids;
- Develop, understand and use corporate-wide tools, guidelines, templates etc.;
- Share and transfer all levels of UNOPS personnel throughout the organization to ensure a balanced workload and efficiency of staff utilization, as well as to ensure assignment of the most appropriate personnel to the client requirement.

UNOPS manages projects by putting in place the project managers, procurement managers, quantity surveyors, engineers, etc., that serve to form the project management team for UNDP or other UN agency projects. There are approximately 6000 such project personnel under contract to carry out the work on behalf of the implementing agencies. These contract staff are a real and most important asset of UNOPS. The current reluctance of divisions to share information and resources leads to uneven delivery and inability to access and maintain corporate knowledge.

The organizational structure at present is untenable, and should be redesigned to reduce the number of divisions with a view to removing the overlap between thematic and geographic interests.

***Recommendation No. 6:** UNOPS organizational structure should be redesigned with fewer divisions, to eliminate the thematic and geographic overlaps. In essence, UNOPS should comprise five geographic operational divisions and a corporate division: Americas (NY), Europe (to be determined), Asia (KL), E&W African (Nairobi, Dakar). The corporate division should remain in NY.*

***Recommendation No. 7:** UNOPS should cultivate, through policies, tools,*

performance appraisal and senior management leadership, an organizational culture that promotes knowledge management, information sharing and behavior that is focused on client delivery and the overall "good" of the organization.

Staffing Flexibility

UNOPS follows the UN guidelines for staffing procedures, pay scales and other UN human resource policies. One of the concerns raised in the Terms of Reference for the work of the Independent Review Team was whether UNOPS was constrained in any way as a self-financing organization by its obligation to follow UN staffing requirements.

The UNOPS staff complement at the present time is comprised of UNDP staff assigned to UNOPS as well as staff hired as UNOPS staff. This includes both professional and general services staff. There appears to be a distinction in the minds of the individuals in each category (UNDP contract holders versus those who are hired by UNOPS), but in fact the distinction has more to do with the support the individual will receive should they either lose their position at UNOPS or decide to seek alternate employment. As a UNDP contract holder, they are considered to be eligible for internal competitions, and so may benefit indirectly. They are not guaranteed a position should they seek to return to UNDP.

The lack of flexibility observed within UNOPS has much more to do with the organizational structure and divisional competition than with the nature of the staffing agreements per se. The divisional competition has restricted any sharing of either human or information resources, to the extent that resources cannot be targeted should additional assistance be required. Intra-divisional sharing of resources occurs in some cases, particularly where staff is organized into clusters.

Another perceived lack of staff flexibility has been brought about through management requests for tasks that staff feel they have neither the qualifications or the training to undertake. This is also the case when staff has been expected to take on unachievable loads due to unreasonable managerial demands. ***An important caution is that UNOPS take care not to create a self-financing entity through overloading staff.***

At the same time, given the nature of its mandate, UNOPS must be able to grow and shrink its core workforce depending on demand and the "business climate". It already

has this option with the CTAs and other project staff, who move from one project to the other if the opportunity presents itself.

Other staffing mechanisms are available that will allow the organization to have a degree of flexibility to meet its commitments, as well as reducing the staffing drawdown on its budget. These include Junior Professional Officer (JPO) placements, which are funded by member states, and internships by graduate or post graduate university students. UNOPS currently utilizes the JPO option in a number of positions. It should be noted that there is sensitivity at the present time about employing staff through other types of contracts when full-time staff are in danger of losing their jobs.

Any flexible staffing arrangements must ensure that appropriate management expertise is available and assigned in order to gain maximum benefit from "free" resources. The management burden for short-term staff is considerable.

In addition to the potential approaches noted above, another alternative is to make use of short-term temporary administrative support during "peak", but atypical, workload periods. With respect to periodic requirements for expert technical advice in specialized areas, another approach currently used by the Asia Office is negotiation of retainer or per diem type arrangements with experts in specific fields. These experts are called upon when the need arises.

> ***Recommendation No. 8:** That UNOPS consider, as part of its human resource strategy, increased use of low cost and short to medium term staffing mechanisms to supplement UNOPS' base staffing complement during peak periods and use of retainer-type arrangements in situations where specialized expertise is required for a short duration.*

The Human Resource Management Function

Many of the points raised within this section on organizational issues fall in the category of the human resource management function. It is important that the Executive Director support the Human Resources Management Division (DHRM) to do just that – manage the human resources within the organization. At the present time, the Division is involved in a number of activities, many of which have to do with processing and providing information for management. Staff on the whole perceived the Division to be remote from their concerns and not fully engaged with

HR management, and organizational development issues.

There is a need for the DHRM to ensure policies and procedures are adhered to and that staff issues are properly dealt with. Staff expressed the opinion that it is difficult to find a conduit to address issues of interest to them, resulting in the escalation of HR issues and workplace unrest. Many staff issues brought forward that are the result of poor communications with management and misunderstandings about roles and responsibilities.

The HR function within UNOPS must be strengthened to address issues raised in this section of the report. The HR function should be utilized to provide direction and guidance concerning HR issues as UNOPS moves through this period of flux and rapid change. It is important that the HR function within UNOPS provide valid corporate balance to management decisions, maintain corporate oversight to ensure fair and equitable treatment of staff, assist in designing corporate staffing flexibility and develop high quality professional development/training strategies to ensure the continued competitiveness of UNOPS.

> ***Recommendation No. 9:*** *The Executive Director of UNOPS should ensure that the DHRM is supported to focus on HR issues, policies, procedures and practice.*

Gender Issues

Gender equality is a principle tenet of the UN in the delivery of its services and also as it applies to all UN agencies and organizations. The place of gender in the UN organization is expressed in the following statement from the website of the UN Office of the High Commissioner for Human Rights (OHCHR):

> *"In operationalizing its commitment, OHCHR recognizes the primary responsibility of Senior Management to provide active leadership in the gender mainstreaming process. OHCHR is committed to achieving internal gender parity - particularly in management positions and field posts. Specific budgetary and staff allocations will be made to ensure a steady increase in the gender mainstreaming process until gender is routinely taken into account in all placements and disbursements."*

During staff consultations, some UNOPS female professional staff expressed the opinion that the gender mix of UNOPS reflects a historic structure. Women have not been placed in positions of authority in sufficient numbers. Female professional staff in some cases felt that their opinions were not given sufficient merit.

The gender profile of UNOPS is presented in the following tables and diagrams. It is clear that there is work to do to integrate women into management positions within the organization, and to change the profile of the General Service staff as well to integrate more males.

Exhibit 11 Professional

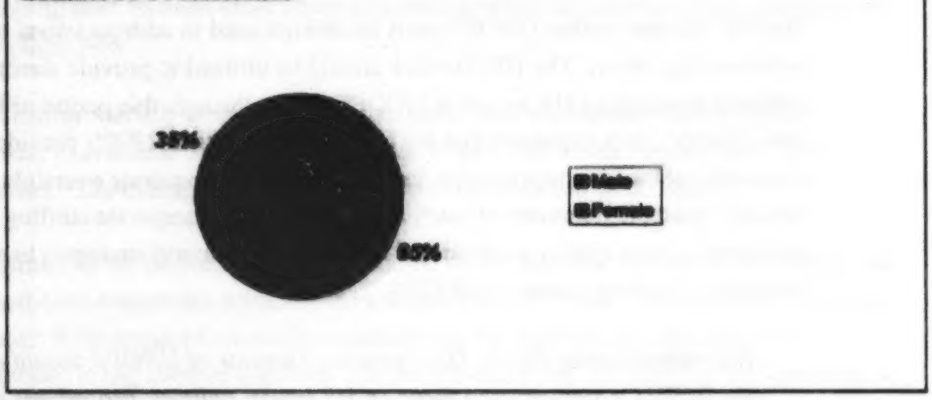
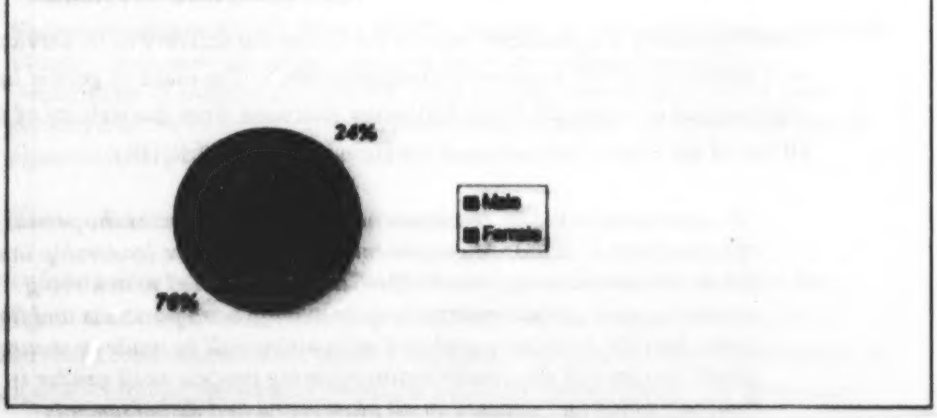


Exhibit 12 General Services



Recommendation No. 10: Staffing in the future should take into consideration the need to address the gender imbalances within the Professional and General

Services staff groups within UNOPS.

Standardized Practices and Procedures

UNOPS is suffering from a number of Human Resource Management issues. There are issues with leadership and management skills at important levels in the organization. Weaknesses in these areas have led to staff morale problems with a strong distrust of management agendas. This has been compounded by the lack of management action on recommendations arising from the many studies on UNOPS.

The quality of UNOPS service delivery at the portfolio level is an essential aspect of client satisfaction and future marketing. Portfolio manager responsibilities vary from location to location within the organization, with the "trickle down effect" impacting the responsibilities of other staff as well as the staffing allocations within offices. Lack of staff training investment dollars has had a negative impact on maintaining a consistent quality of service.

> ***Recommendation No. 11:** Management should carefully review tasks that are being assigned to staff and ensure that these are consistent with job profiles.*
>
> ***Recommendation No. 12:** Corporate-wide policies, procedures, tools and templates should be updated or created and supported by professional development training modules to ensure high quality, consistent levels of service delivery.*

Employee Performance Appraisal and Motivational Issues

In line with the internal divisional competition, due to the financial downward spiral experienced by UNOPS over the past four years, concerns were raised by the clients that the focus on dollar delivery targets has been emphasized to the exclusion of all other "indicators of success." The focus on results inherent in the Millenium Development Goals will influence donor requirements to report on results. As a UN organization, UNOPS will need to consider ways in which to incorporate a results focus into its business orientation.

***Recommendation No. 13:** Additional "indicators of success" should be incorporated into the performance reporting requirements to broaden the UNOPS focus on results for clients. These should also include internal support functions to other offices/projects/etc.*

The Annual Performance Appraisal Review (PAR) is seen as a pro-forma exercise rather than as a valid and important management tool to provide feedback to staff on strengths as well as suggested improvements. Performance review pilot projects designed around broader indicators have been instigated in two of the divisions.

There appears to be no reward for good performance and no sanctions even when major errors are committed and when performance seriously lags behind expectations. There is a need for a performance assessment process with clearly defined standards and measurable outputs that includes management as well as staff.

A more fundamental issue is the lack of trust between staff and management: staff in some offices perceive performance appraisal "systems/pilots" as simply being new ways to judge staff in a negative light. Both managers and staff must be clear about the ways in which performance measurement systems can be used to communicate positive features as well as to note areas for improvement.

***Recommendation No. 14:** Managers in all offices responsible for staff performance appraisal reviews should receive concentrated training on the proper utilization of performance review as a management tool.*

***Recommendation No. 15:** Performance reviews should be given by staff on the performance of managers (360 degree feedback).*

Career paths are of particular concern to general services staff hired under local hire rules in decentralized offices. With increasing client expectations, and reduced resources, staff is working hard to meet their commitments. At the same time, they feel that opportunities so advance within UNOPS are limited.

UNOPS does not incorporate staff mobility as one of its primary principles. Local hire staff expressed the view that the organization could assist them to further their careers by supporting them to access other jobs within the UN system.

The career path issue should effectively be dealt with at the Executive Director level when priorities and resources permit. There may be other options that have been tried elsewhere within the UN system that may be applicable to UNOPS.

Recommendation No. 16: When time and resources permit, career paths for all staff should be assessed to determine what solutions/career plans might be possible.

Training and Workload Assignment

According to a recent report prepared by a joint employee/management group, the human resources strategy at UNOPS is currently reactive rather than proactive. Only limited investment is being made to equip the staff with competencies required by a knowledge organization. Online training has only marginally benefited the staff, especially those in the decentralized offices.

Staff expressed the opinion that they were being increasingly expected to take on more responsibilities within projects – responsibilities for which they had received no training. They expressed an interest in receiving training in a number of areas such as procurement, loan administration, additional computer training, language training, etc. Staff also stated that they need coaching and mentoring.

The issue of staff training is related fundamentally to staff tasking and workload assignment by managers. Various degrees of "downloading" of managers' responsibilities were observed during the course of the study, leading to a wide range of managers' expectations of staff competencies. Management and especially the DHRM should carefully review tasks that are being assigned to staff to ensure consistency with job profiles. This assessment will identify capacity gaps and provide the basis for determining the types and levels of professional development/training required within the organization.

Professional staff also expressed interest in ongoing professional development as a way of both developing their skill sets and sharing information/knowledge with others. The self-guided training module approach in the minds of many portfolio managers is both time-consuming and does not allow interaction with others. For

UNOPS management and staff, the value of professional development/training activities is as much in the exchange between participants as it is in the content.

Strategic professional development and training programs will increase the flexibility of UNOPS by building the skill sets available to the organization. As UNOPS begins to realize the benefits in terms of time and resources to be gained from organizational efficiency measures, additional time and money should be directed toward staff training.

> ***Recommendation No. 17:** As resources become available, professional development/ training plans should be developed for managers and staff so as to enhance the ability of UNOPS to deliver value-added services to clients. For staff, the plans could include field visits and other types of "hands-on" training opportunities, if this could be accomplished without negative budget implications and with client concurrence.*

Performance Management and Accountability

Traditional accountabilities have focused on financial and operational activities (i.e. efficiency measures) but this only gives part of the picture. Efficiency measures by themselves are not sufficient to assess whether an organization is performing well. New accountabilities require an equal emphasis on the non-financial aspects of results and performance (i.e. effectiveness). The emphasis is increasingly on high quality deliverables, effective management and service delivery, and the achievement of stated results.

In the most general terms, accountability refers to the ownership of conferred responsibilities and on the results obtained. To be accountable, an organization must be clear about its goals, explain the strategies it will use to meet goals and associated objectives, reveal the full costs of these strategies and report clearly on its actual results. The organization must also report and explain any differences between expected and actual results, and where results are less than expected, outline actions taken and planned to improve the situation.

Since its inception in 1995, UNOPS has been diligently focused on its fiscal situation. The next step is for the organization to focus as well on the effective and efficient use of resources through strengthening performance management and accountability of managers and staff throughout the organization. By ensuring that UNOPS organizational goals and objectives are set, communicated, measured and achieved, UNOPS will be able to measure performance and manage towards success.

The overriding purpose of accountability and performance management/measurement is to provide useful, relevant information that enables management to make informed decisions that result in continuous improvement in service delivery. Improved accountability at all levels in UNOPS will:

- Inform the organization how is progressing in terms of its goals and objectives;
- Influence the way staff and projects are managed; and
- Assist others to assess the progress and operations of the organization.

6.1.4 Governance Issues

In the Joint Inspection Unit (JIU) Report of 1998, a recommendation was made that the Executive Board assign a separate segment of its sessions to UNOPS. To our knowledge this recommendation was never adopted.

The role of the MCC (DP/1994/61 of Aug 19, 1994) was " to maintain and strengthen the functioning of UNOPS as a self-financing entity working in a business-like manner". "It should provide policy and management directives in the functioning of UNOPS including the setting of operational policy, facilities, and monitoring of compliance." The MCC has dealt with a host of issues needing guidance and clearance before being submitted to the Executive Board, including business plans, procurement and contracting, information systems, risk management, relationship and agreements with UN entities and UNOPS reorganization efforts.

The MCC composition was expanded in 2002 as proposed by the UN Secretary-General in his note to the Board (DP/2002/CRP.5) to incorporate a few major clients (IFAD and DPKO) as well as the Office of Legal Affaires (OLA) and the UN Controller, (the two latter as ex officio participants). The Board took note of the establishment of this expanded MCC in its decision DP/2002/13 paragraph 10, of 27 June 2002.

The Users Group, which was also established, has met only once and is generally not considered to be effective.

In addition to the above, a Business Advisory Council was established, which includes approximately fifty representatives of the private sector selected from around the globe. The Council has not been very active, meeting only 2 or 3 times. In the human resources area a number of initiatives have been taken by UNOPS with the active support of Business Advisory Council (BAC), activities have been limited. There may be more potential for using the BAC support in the future.

The future governance structure will depend ultimately on whether the Executive Board endorses the continuation of the revenue dependency business model that UNOPS has been following, an assumption that the Independent Review has made in the completion of this study.

Given the above assumption, the governance structure should be based on increasing the independence of UNOPS from UNDP and from the UN administration while continuing to ensure accountability and best business practices. The concept of involving key UN users and some key external advisors in an expanded UNOPS Board may also ensure that UNOPS remains responsive to the ongoing changes in the UN system and to trends in international cooperation.

> ***Recommendation No. 18:*** *The MCC should continue but the UNOPS Executive Director should become the Chair. Membership of the MCC should be revised to ensure that a broader array of UN clients, users, and potential users be included, and that members are of the competence and level to ensure that the fiduciary and accountability responsibilities of UNOPS will be fulfilled.*
>
> ***Recommendation No. 19:*** *The role of the MCC should be to provide strategic direction in business development, to ensure best practices and to ensure that UNOPS continues to be viable.*
>
> ***Recommendation No. 20:*** *A separate segment of the UNDP Executive Board should be created to deal with UNOPS. The Executive Board should recognize its responsibilities for UNOPS in its title as Executive Board for UNDP/UNFPA/UNOPS.*

***Recommendation No. 21:** The role of the Executive Board should be to provide oversight and to foster the continued development of UNOPS as a common service agency. The Board should actively encourage UN agencies to use UNOPS or allow UNOPS to compete on administrative and implementation activities, and to avoid duplication by others of activities that should be developed within UNOPS.*

6.2 Financial Practices and Systems

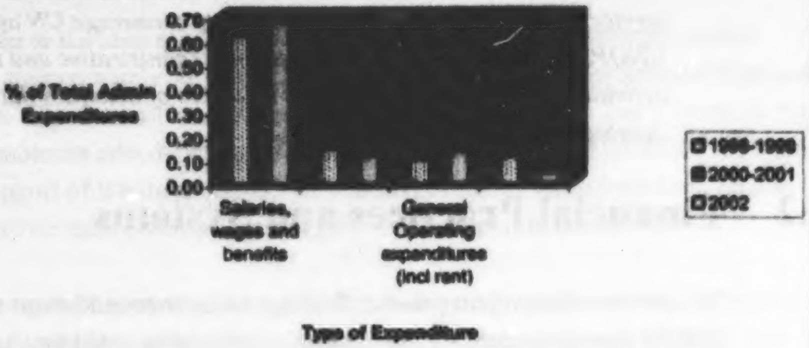
This section of the report presents findings and recommendations related to the UNOPS financial practices and systems. It should be noted that, unless otherwise referenced, all financial data presented herein are from UNOPS Audited Financial Statements for the biennial periods ended 1998/1999 and 2000/2001 and UNOPS Financial Statements for the year ended December 31, 2002.

6.2.1 Overview of UNOPS Cost Structure and Financial trends

In recent years, UNOPS administrative expenditures have been in the range of $43 million to $53 million: $47.4 in 1999, $52.3 million in 2000, $52.8 million in 2001 and $43.5 million in 2002. In each of fiscal year 2000, 2001 and 2002 administrative expenditures have exceeded income. The 2003 Business Plan projects total income for 2003 of $44.7 million and expenditures of $43.9 million, with $ 0.8 million surplus then available for replacement of the reserve.

Administrative expenditures over the last two biennial periods (1998/1999 and 2002/2001) and in Fiscal 2002 have exhibited the pattern illustrated in Exhibit 13. Salaries, wages and benefits in the range of 62-68% of total administrative expenditures; UN, UNDP and other UN agency service charges in the range of 12-15%; general operating expenses (including rent) in the range of 10-14%; and other administrative expenses in the range of 5-12%. "Other administrative expenditures" includes: official travel, contractual services, supplies, furniture and equipment and, for the biennial periods 1998/1999 and 2000/2001, and the costs associated with IFAD loan supervision.

Exhibit 12: Overview of Administrative Expenditures



Source: UNOPS Audited Financial statements for the biennium periods ended 1998/1999 and 2000/2001 and UNOPS Financial Statements for the year ended December 31, 2002.

Salaries, Wages and Benefits

The major UNOPS administrative expenditure is salaries, wages and benefits. Although UNOPS management has control over these costs in terms of numbers and levels of staff, UNOPS does not have control over the prescribed UN salary levels and benefits.

A recent example where this inability to control impacted UNOPS operations was the 2002 decision by the General Assembly to increase salary, coupled with increased cost of living adjustments as well as effect of depreciation of the US dollar against major currencies, which resulted in a 14% increase of cost. This unanticipated increase created funding pressure in the range of $2 to $3 million. The situation was worsened by the fact that UNOPS was delivering services on the basis of fee levels determined on the assumption of existing salary levels.

UN, UNDP and Other UN Agency Charges

The second largest UNOPS administrative expenditure category is charges to UNOPS for services provided by the UN, UNDP and other UN agencies. In 2002, these costs totaled $5.3 million (or 12% of total Administrative Expenditures), $3.1 million for central services provided by the UN and by UNDP and $2.2 for services provided by UNDP country offices and other UN agencies.

UN Central Services

The United Nations provides several types of "central services" to UNOPS. These services are provided under the terms and conditions of a formal reimbursement arrangement. The cost to UNOPS over the last several years has remained fairly constant and predictable: $2.8 million for the biennium ended December 31, 2001 (or on average $1.4 million per year) and $1,036,249 for the year ended December 31, 2002.

The basis upon which the reimbursement agreement has been established and operates is a ***best practice*** for such inter agency agreements. The agreement;

- Very clearly sets out the basis of all cost calculations, the cost drivers and workload indicators for determining costs;
- Invites and ensures participation by all involved parties, including UNDP, UNFPA and UNICEF, in the process of determining cost drivers and workload indicators;
- Stipulates that the principle of proportionate sharing will be followed in order to avoid the administrative burden of precise valuation;
- Stipulates that "in order to permit all parties to plan and incur expenditures based on a known level of reimbursement, no adjustment will be made to billings" except in special circumstances that would be mutually discussed and negotiated by all parties;
- Assures all parties that any variances over 5% of the planned charges will be explained in detail at the time of billing; and
- Includes a dispute resolution process.

UNDP Central Services

UNDP provides "central services" support to UNOPS in the area of finance (treasury) and administration, human resources and information technology support. Total charges by UNDP for these services has been $4.4 million for the biennium ended

1999 (or on average $2.2 million per year), $4.03 million for the biennium ended 2001 (or $2 million per year) and $1.4 million in fiscal year 2002.

An umbrella MOU has been developed but is yet to be signed between the two parties. The negotiation and agreement of actual services rendered and amounts invoiced has been a source of much debate, discussion and friction between the two organizations. From the perspective of UNOPS, the charges from UNDP have been neither predictable nor transparent.

Over the last several years, the lack of clarity has contributed to several problems:

- Resource burden on UNOPS for dispute resolution;
- Difficulty of meaningful cost/benefit analyses for service delivery alternatives, and,
- Computation of UNOPS overhead based on largely unknown UNDP central charges.

To clarify the arrangement, limit the confusion and wasted resources, and to develop a rational distribution of costs for services provided, UNOPS and UNDP have been working for over a year to develop an umbrella MOU. As of July 2003, the two organizations were still working towards one.

Key issues remain outstanding. For example, UNOPS' 2003 budget, already approved by the Executive Board, has estimated UNDP central services at $1.4 million. UNDP's negotiating position is closer to $3 million, an amount that includes additional charges for the biennium period 2000/2001.

As a cost recovery organization trying to operate on the basis of a sound business model, UNOPS must prepare budget forecasts and business plans and implement them. During the review, we were told that the two organizations might opt, for the sake of having a legal agreement, to sign an interim "agreement in principle" with pricing details left for resolution at a later date. UNOPS would enter into a fee for service arrangement with unspecified costs and would be responsible for "new" costs related to fiscal periods that have long since been closed.

Furthermore, the MOU will only be in effect for the few remaining months of 2003. The cost calculations will be based on IMIS-driven UNDP workflows and costs. Once the new PeopleSoft system is implemented in 2003, the costs will need to be revisited and a new MOU, or at least an addendum, negotiated.

> ***Recommendation No. 22:** The eventual MOU with UNDP for central services must clearly stipulate the services to be provided by UNDP, the service standards/levels to be expected, the basis upon which costs will be determined, the cost drivers, the roles and responsibilities of each organization, and the protocol for expeditious escalation and resolution of conflicts.*

> ***Recommendation No. 23:** The UNOPS Executive Director should ensure that the MOU includes sufficient detail to enable UNOPS to compare the cost effectiveness of having the services provided by UNDP, to alternative approaches. The information should then be used as a basis for future decisions regarding the breadth of services to be provided by UNDP.*

UNDP Country Office Services

At the request of UNOPS, UNDP country offices provide a variety of administrative and other support in geographic areas where UNOPS does not have a physical presence. The charges for these services have, in recent years, been as follows: $4.1 million for the biennial period 1998/1999 (or on average $2 million per year); $4.5 million for the biennial period 2000/2001 (or on average $2.2 million per year); and $2.0 million for the year ended December 31, 2002.

The services vary by office and location, but might include, such services as payment transactions (disbursements, journal vouchers, credit vouchers, etc.); staff recruitment (including one or all of advertising, short-listing, interviewing, contract issuance, payroll set-up); local driver's license processing; travel authorization processing; procurement; and customs clearance.

Until recently, the arrangement between UNOPS and UNDP country offices was never detailed in a formal agreement. In most instances, the details were not negotiated and agreed upon in advance. The lack of an arrangement for services to be provided and the amounts to be charged to UNOPS contributed to frustration and the need for much discussion and negotiation between the two organizations. Often the result was receipt by UNOPS of "surprise" invoices from UNDP country offices, sometimes months after the services were provided and/or the project(s) completed.

Further complications included:

- A variety of cost calculation methods by UNDP country offices; and
- Organization and presentation of invoices where identification of costs for specific projects is complicated or impossible.

The result was considerable waste of UNOPS and UNDP country office resources discussing and negotiating the reasonability of charges. Without information on the potential cost, UNOPS could not make an informed decision regarding the most cost effective approach to project delivery. Furthermore, because of the muddled invoicing, in some cases, UNDP country office project related charges were absorbed by UNOPS Administrative Budget.

UNDP and UNOPS have recently signed an MOU with regards to UNDP Cost Recovery for Services at the Programme Country Level. The agreement, retroactive to January 1, 2003, sets out a "Universal Price List" for standard services, with four "cost bands", depending upon the location of the country office. Non-standard services are not covered. Again, the cost implication of the agreement has yet to be determined and the agreement will only be valid for the few remaining months of 2003.

UNOPS anticipates that the new MOU will pose a significant training and behavioral challenge as UNDP Country Offices become familiar with the new and improved way of doing business. However, based on preliminary calculations, the new agreement may result in lower cost and charges to specific projects rather than UNOPS Administrative Budget.

> ***Recommendation No. 24:*** *UNOPS Executive Director should take the necessary actions to ensure, in instances where UNOPS requires "non-standard" services from UNDP country offices, that details of services to be provided and costs to be charged, are negotiated in advance of services being rendered. The protocol for such negotiations should strive to minimize the level of effort required by*

both UNOPS and UNDP personnel to establish a fair and transparent arrangement.

Recommendation No. 25: The UNOPS Executive Director should ensure that any future disputes arising between UNOPS and UNDP Country Offices related to this newly signed MOU are, in both theory and practice, resolved quickly with minimal effort from both organizations, and swift escalation to higher levels.

Recommendation No. 26: A UNOPS policy statement should be prepared that requires portfolio managers to use the newly created "Universal Price List" as a comparative base for determining the most cost effective approach to providing UNOPS services.

General Operating Expenditures (including the Chrysler Building rent)

The third largest UNOPS administrative expenditure category is "General Operating Expenditures". While this includes the usual general office expenses such as paper, postage, supplies, and couriers' services, the great majority of this expenditure category is the rental cost of the Chrysler Building.

The decision to enter into the 15 year Chrysler lease was approved in 1998 by both the MCC and the Executive Board. The cost of renting these premises throughout the term of the lease is detailed in Exhibit below.

Exhibit 14

Lease Costs for the Chrysler Building

Period of Lease	Office Premises, based on Base Rate only (76,241 square feet)	Storage Premises (3,374 square feet)	Total
Oct. 1999 to Oct.2004	$3,316,483 p.a. (reps $43.50 per annum per square foot)	$118,090 p.a. (reps $35.00 per annum per square foot)	$3,434,573 p.a.
Nov. 2004 to Oct. 2009	$3,621,447 p.a. (reps $47.50 per annum per square foot)	$118,090 p.a. (reps $35.00 per annum per square foot)	$3,739,537 p.a.
Nov. 2009 to Oct. 2014	$3,926,411 p.a. (reps $51.50 per annum per square foot)	8,242 p.a. s $38.00 per annum per square foot)	$4,054,623 p.a.

Source: Lease Summary, 405 Lexington, L. L. C., as of January 29, 1999

The Independent Review did not include a comparison of the current Chrysler Building rental rates versus New York City market rates, or an assessment of the analysis leading to the initial decision. Instead, given the forward-looking nature of the review, the issue of required versus available space was explored.

According to UNOPS facilities management personnel, the current occupancy picture is as follows:

- UNOPS personnel--70%;
- Sub-leased--20%; and
- Vacant-- 10%.

With respect to sub-leasing, UNOPS may sublet up to 25% of the premises to UN-related organizations. In 2002, and 2003 UNOPS facilities management personnel have been actively marketing the availability of the Chrysler Building office space to UN organizations. As of June 2003, UNOPS expected sub-lease income of just under $1 million per year. More sublets or renting to non-UN organizations would require approval from the landlord or breaking the lease. In the event that UNOPS should choose to break the lease, UNOPS would be liable for the monthly rental until some new tenant is found and the cost of clearing out the premises in readiness for the new tenant.

Given the current staffing levels of UNOPS NY, the size of the rented premises, recommendations to relocate staff to lower cost venues, and a more aggressive stance is required by UNOPS to alleviate the considerable financial strain of the Chrysler Building lease. Efforts by UNOPS and or the landlord could result in lessening UNOPS' financial obligations.

Exhibit 15 below illustrates several potential scenarios. These were used in simulations to determine the longer-term viability and sustainability of UNOPS.

Exhibit 15

Potential Sub-lease Scenarios

	Scenario #1	Scenario #2	Scenario #3
A. # of UNOPS Personnel located in New York City	150	100	75
B. Space Required for UNOPS (based on 75 square foot "Universal Units" per person)	11,250	7,500	5,625
C. Space already sub-let (approx. 84 "Universal Units")	6,225	6,225	6,225
D. Estimated space not available for office space (e.g. halls, washrooms, conference rooms, common areas, etc.)—Say 30% of 76,241	22,872	22,872	22,872
E. Total space required (E=B + C +D)	40,347	36.597	34,722
F. Total space available for sub-lease (F=76,241 sq. ft. – E)	35,893	39,644	41,518
G. Potential additional income (or decrease in rental expense)—based on, say, $43.50 per square foot, the1st 5 year base rate (G=F x 43.50)	$1.6 million	$1.7 million	$1.8 million

***Recommendation No. 27:** UNOPS develop, in consultation and negotiation with the landlord, as required, a much more aggressive strategy to either sub-lease a substantial portion of the Chrysler premises for the long term or to break the Chrysler lease.*

***Recommendation No. 28:** The Executive Board, depending upon the specific strategies recommended by UNOPS management, assist in communicating and encouraging the availability of Chrysler Building space to other UN organizations.*

6.2.2 The UNOPS Reserve

As at the end of the Fiscal Year ended December 31, 2002, the UNOPS reserve was $4.2 million. The projected balance as at December 31, 2003, based on the 2003 forecast approved by the Executive Board is $3.2 million.

The initial UNOPS reserve level was initially established following the UNDP practice at 20% of the annual administrative budget, and funded by a transfer from unspent income carried forward from prior years. The Executive Board subsequently changed the formula to 4% of the combined admin and project delivery for a given year. Exhibit 16 below shows reserve transactions during the period from January 1, 1998 to December 31, 2002.

Exhibit 16

Reserve Transactions: 1998-2002

Reserve transactions	1998-1999 ($ Millions)	2000-2001 ($ Millions)	2002 ($ Millions)	Total ($ Millions)
Balance of reserve at start of period	21,424,503	17,381,501	5,028,954	21,424,503
Current period surplus/(excess) of income over Admin Expenditures	14,130,895	(11,496,501)	97,100	2,731,494
Savings on prior period obligations	1,016,352	3,239,367	695,723	4,951,442
Relocation project	(14,108,129)		0	(14,108,129)
Information systems project	(4,063,084)	(3,006,338)	0	(7,069,422)
Host government contributions and expenditures	(1,018,772)	($1,089,339)	68,391	(2,039,720)
Costs of staff separation entitlements			(1,116,276)	(1,116,276)
Provision for doubtful accounts			(557,196)	(557,196)
Balance of reserve at end of period	17,381,765	5,028,954	4,216,696	4,216,696

The recommended level for the reserve is discussed as part of the Business Model. Further simulation of reserve usage is part of the assessment of UNOPS viability and sustainability.

6.2.3 IMIS and UNOPS financial systems

UNOPS' current financial practices and systems do not meet the information needs of the organization or of its clients. The diagram on the following page illustrates the systems. The current suite of systems used to record and produce UNOPS financial information includes:

- IMIS, the Oracle-based financial system used by UNOPS, UNDP and other UN agencies.
- IOView, the financial system used to upload, review and approve expenditure transactions from UNDP Country Offices. Once approved the transactions are downloaded to IMIS.

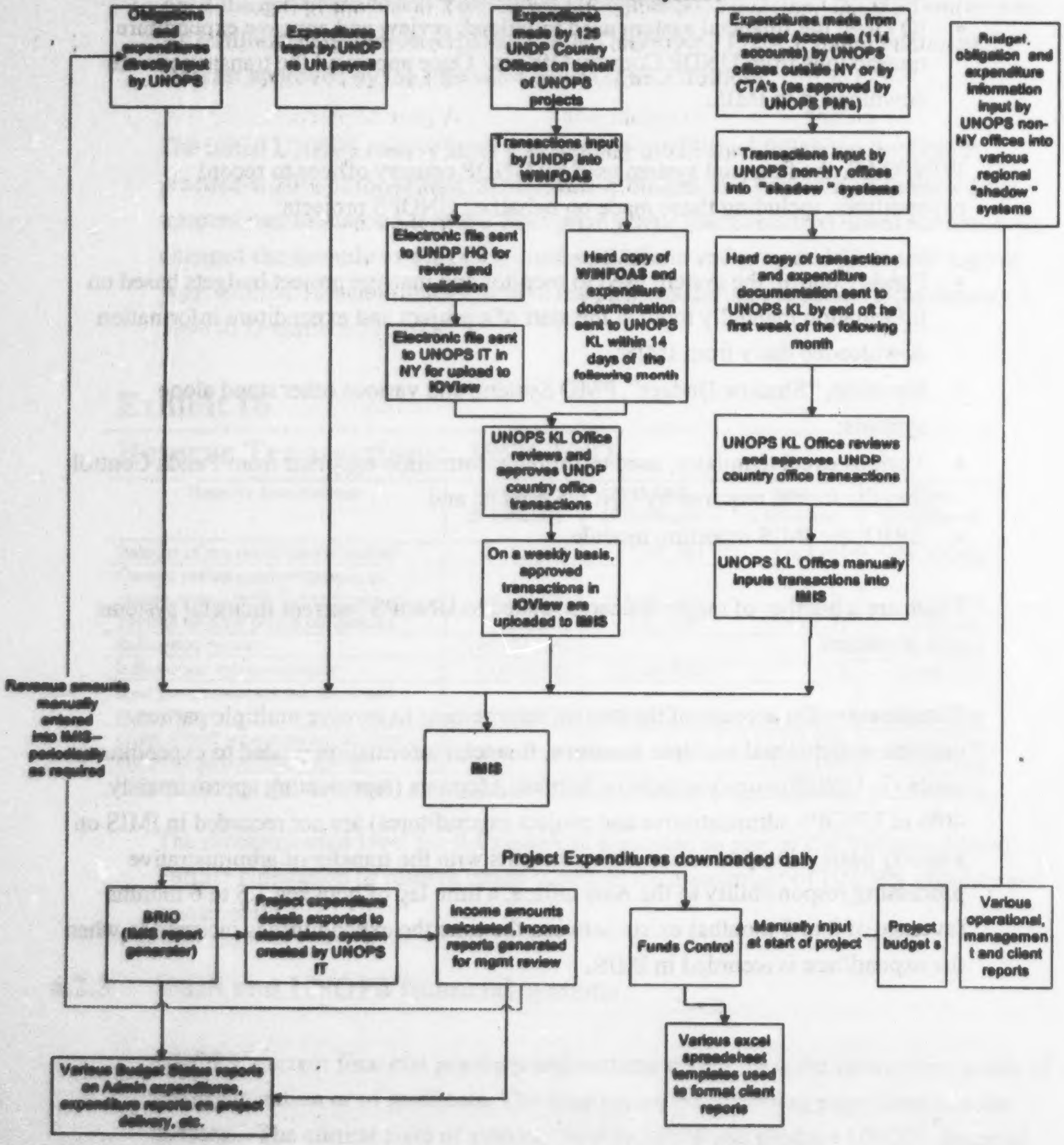
WINFOAS, the financial system used by UNDP country offices to record expenditures, including those made on behalf of UNOPS projects:

- Funds Control, the system used to monitor and manage project budgets based on information manually input at the start of a project and expenditure information downloaded daily from IMIS;
- Navation, "Shadow Budget", PMO System, and various other stand alone systems;
- Various excel templates, used to format information exported from Funds Control into the format required by UNOPS clients; and
- BRIO, the IMIS reporting module.

There are a number of major concerns related to UNOPS' current financial systems and processes.

Timeliness: On account of the current requirement to involve multiple parties, multiple systems and multiple locations, financial information related to expenditures made via UNDP country offices or Imprest Accounts (representing approximately 40% of UNOPS administrative and project expenditures) are not recorded in IMIS on a timely basis. Despite recent improvements with the transfer of administrative processing responsibility to the Asia Office, a time lag of between 1.5 to 6 months (average of 2 to 3 months) exists between the time the expenditure is incurred to when the expenditure is recorded in IMIS.

Exhibit 15: Overview of UNOPS Financial Systems


Obligations and expenditures directly input by UNOPS
Expenditures input by UNDP as UN payroll
Expenditures made by 126 UNDP Country Offices on behalf of UNOPS projects
Expenditures made from Imprest Accounts (114 accounts) by UNOPS offices outside NY or by CTA's (as approved by UNOPS PM's)
Budget, obligation and expenditure information input by UNOPS non-NY offices into various regional "shadow " systems
Transactions input by UNDP into WINFOAS
Transactions input by UNOPS non-NY offices into "shadow " systems
Electronic file sent to UNDP HQ for review and validation
Hard copy of WINFOAS and expenditure documentation sent to UNOPS KL within 14 days of the following month
Hard copy of transactions and expenditure documentation sent to UNOPS KL by end oft he first week of the following month
Electronic file sent to UNOPS IT in NY for upload to IOView
UNOPS KL Office reviews and approves UNDP country office transactions
UNOPS KL Office reviews and approves UNDP country office transactions
On a weekly basis, approved transactions in IOView are uploaded to IMIS
UNOPS KL Office manually inputs transactions into IMIS
Revenue amounts manually entered into IMIS– periodically as required
IMIS
Project Expenditures downloaded daily
BRIO (IMIS report generator)
Project expenditure details exported to stand-alone system created by UNOPS IT
Income amounts calculated, income reports generated for mgmt review
Funds Control
Manually input at start of project
Project budget s
Various operational, managemen t and client reports
Various Budget Status reports on Admin expenditures, expenditure reports on project delivery, etc.
Various excel spreadsheet templates used to format client reports

Project Financial Reporting: Client reporting needs are not being met by the current financial system. Currently, official client reports are generated by the Finance Branch in New York either directly from Funds Control (based on manually input project budgets and daily uploaded expenditure information from IMIS) or from Funds Control information that has been exported into specially formatted excel spreadsheet templates. A general perception among UNOPS operations personnel is that Funds Control is not capable of producing timely and accurate financial information in the client requested reporting format, especially for non-UNDP clients. However, the view of UNOPS IT and finance personnel is that IMIS/Funds Control information could easily be created, manipulated and formatted to meet client requirements if, during the fee negotiation stage:

- Client reporting requirements were clearly communicated by operations personnel to Finance and IT personnel; and
- Finance, IT and operations personnel worked together to plan what additional actions, if any, would be required during the coding of expenditures and or what new reporting templates would be required to meet client reporting needs. At the same time, consideration of any additional actions required to meet new or enhanced reporting requirements could be considered as part of fee negotiations.

Reliability: Operations personnel do not believe the information recorded in IMIS is reliable.

Proliferation of parallel financial systems: All UNOPS offices outside New York run various parallel financial systems to meet day-to-day operational and financial reporting needs. Maintaining these systems require considerable regional resources and confuses UNOPS clients who receive different reports from local offices and from Finance Branch in New York.

Recording of Income: Income is not automatically calculated within IMIS.

Availability of Project Budget status reports: Project budget information is not recorded in IMIS.

Accessibility and Ease of Use: Some regional offices have limited access to IMIS due to UNDP-related technical issues.

Overall, IMIS is viewed by many UNOPS operational personnel as being a cumbersome and non-user friendly system. Although this perception may simply be due to lack of training, the perception remains.

> ***Recommendation No. 29:** The UNOPS Executive Director should take the necessary actions to ensure that the implementation of ERP/PeopleSoft is properly planned, resourced and carried out so that that the many deficiencies of the current IMIS-based system are addressed.*
>
> ***Recommendation No. 30:** The UNOPS Executive Director should ensure that the issue of the continued need for the current suite of UNOPS "black book" or "shadow" systems is explored and addressed as part of the move to ERP/PeopleSoft.*
>
> ***Recommendation No. 31:** UNOPS ensure, as a matter of corporate policy, that the financial reporting requirements of clients are well understood prior to acceptance and start of the project so that actions can be taken to ensure client needs are met.*
>
> ***Recommendation No. 32:** UNOPS take the necessary actions in both the interim period, and post PeopleSoft, to institute a more business like and periodic approach to monitoring and managing income and expenditures. Such an approach must be based on timely and accurate information.*

6.2.4 UNOPS Approach to Costing

In the words of many UNOPS personnel, "UNOPS does not have a costing system that makes sense." The review team members concur with that observation.

Historically, the approach to costing by UNOPS has been to use the PMO Costing System. The PMO Costing System is an archaic, misunderstood and inaccurate system that attempts to calculate the UNOPS cost of a project and determine the fees required to cover that cost. It is generally described by UNOPS personnel as "meaningless".

The "per diem" cost information in PMO is a 10-year-old estimate of total UNOPS administrative costs divided by the number of portfolio managers.

The various input factors such as "complexity" and "substantive" factor are ill defined and inconsistently applied. The practice in UNOPS is to force the system to produce a pre decided fee level.

Recently various divisions within UNOPS have begun using new methods of costing based on an improved version of PMO, costing of projects based on anticipated tasks, level of effort and some variation of salary costs or per diem rates and application of a blanket overhead rate such as 2.2 times salary cost. Geneva for example has developed a more effective model.

Although each of these newer approaches are indeed improvements towards obtaining better cost information, none of these approaches will meet the need for:

- Increasing information and transparency for donors and clients;
- Meaningful cost information for internal management and resource allocation purposes; and,
- Improvement of costing estimates.

UNOPS must establish a costing system that is based on the direct costs of the salary and benefits of personnel involved in delivering the service, the direct costs of other expenditures incurred by UNOPS on account of the project and a reasonable mark-up based on "what the market will bear".

Although, overall, UNOPS must plan to produce some total targeted amount based on projected overhead costs, not every project can realistically be required to meet some targeted "one-size fits-all" overhead rate. Such an approach is arbitrary in a competitive market situation, since the impact would be to reject otherwise good business opportunities that covered direct costs but did not meet a standardized and corporate-driven overhead rate.

On a project-by-project basis, UNOPS' costing approach should be based on a set of realistic and meaningful tasks for each project and calculation of the direct cost of personnel and expenditures required for the project. Using this approach does not preclude quoting fees to clients in terms of a percent of project expenditures, since that is the long established terminology.

Exhibit 17

Example of costing based on UNOPS activities and level of effort

Task and Phase	# of days of Portfolio Manager Effort	# of days of Procurement Specialist	# of days of other UNOPS support staff
Planning Phase			
Task #1: Scoping study	x	x	x
Task #2: etc.	x	x	x
Execution Phase			
Task #1: Procure xxxxx	x	x	x
Task #2: etc.	x	x	x
Task #1: Prepare financial reports	x	x	x
Task #2: Prepare progress reports	x	x	x
Task #3: etc.	x	x	x
Project Wrap-up Phase			
Task #1: Prepare final project report	x	x	x
Task #2: etc.	x	x	x
Total level of effort	xx days	xx days	xx days
Per diem (based on direct costs/ # of available work days plus appropriate mark-up)	$x	$x	$x
Total personnel cost	$x	$x	$x
Other project expenditures/disbursements bourne by UNOPS	$x	$x	$x
Total cost of project (i.e. Total fees to be charged)	$x		

Recommendation No. 33: *UNOPS should move towards a basis of project cost calculation that is based on level of effort, costs incurred and an overhead rate that is reflective of market condition and risk to the organization.*

6.2.5 Project Acceptance and the PAC Process

Currently the decision to accept/reject potential business for UNOPS is managed by the "PAC" (Project Acceptance Committee") process. The PAC consists of a mix of senior and middle management representatives from both corporate and operational divisions. The objective of PAC, as explained by the Chairman of PAC, is to review the costing of the proposed project, to assess the risks involved in delivering the proposed project and to decide which UNOPS division should be given responsibility for the project. Although it is the opinion of a few UNOPS senior management representatives that the PAC process "works well", many others (senior and middle management, as well as operational personnel) feel the process is arbitrary, inconsistent, and prone to bias and personal favoritism.

The current PAC process is not well respected because there are no formally documented criteria to support PAC decisions, the proposed costs (produced by the PMO System) presented to PAC are, in the opinion of most, are questionable and there is no set process for when projects should be submitted to PAC.

UNOPS, as a cost recovery operation, must have a very business like and strategic project acceptance regime. The process and criteria must be comprehensive and address the fact that UNOPS must build and maintain a reputation for being client focused and for providing cost-effective and quality service.

> ***Recommendation No. 34:*** ***UNOPS should revamp the current project acceptance process into one that is based on the assessment of a comprehensive set of criteria and carried out in a more efficient, business-like, professional and transparent manner.***

6.2.6 ERP (Enterprise Resource Planning) PeopleSoft

In 1999 UNOPS, along with UNDP, implemented the UN-developed financial system IMIS. The implementation of IMIS was, in the opinion of many UNOPS personnel, frustrating and painful both for UNOPS personnel and for UNOPS clients.

As at January 1, 2004, UNOPS, as well as UNDP and UNFPA will continue to use IMIS until at least January 2005 for the administration of compensation and benefits of their international staff on 100/200 series of contracts, including payrolling. IMIS will also continue to be used for the administration of travel entitlements for all travel initiated from New York (the latter being a decision made by UNDP against the advice of UNOPS). UNOPS, along with UNDP and several other UN agencies, will "go live" with the first seventeen modules of PeopleSoft, a well-known, commercially available Enterprise Resource Planning (ERP) system. The move to PeopleSoft is being led by UNDP.

Although at face value UNOPS has been involved, many concerns have been expressed by UNOPS both about the extent to which UNOPS has been able to provide input and direction to the project and the level of effort and focus UNOPS personnel have been able to commit to the project. Although a senior UNOPS representative has been assigned responsibility for managing the implementation process, this responsibility is a part time duty on top of an already full role.

UNOPS personnel involved in the project acknowledged that, for the large part, the benefits are unknown.

Issues and Concerns

In "Understanding PeopleSoft 8", Lynn Anderson of Cap Gemini Ernst and Young US, points out that:

Some common reasons why companies fail to receive value from their ERP implementation are:

- *Inadequate benchmarking of current status and no business case for implementation,*
- *Inadequate resources in terms of human and financial plans for the major transformation, and*
- *Not having management support and a change management plan for the transformation.*

UNOPS must ensure that it does not succumb to the above common reasons for a potential failure.

The review team has identified a number of other issues and concerns with the ERP implementation process:

- ERP implementation responsibilities assigned are part time and inadequate.
- The decision to implement the system for UNOPS was not made on the basis of an analysis of the business model, business processes and information needs; identification of gaps, weaknesses and opportunities; an

assessment of the extent to which the proposed system could meet those needs; and a cost/benefit and return on investment analysis.

- **Relative to other UN partners involved in the implementation, UNOPS' senior management has had limited involvement in the project.**
- **Without sufficient senior management understanding of and support for such a massive initiative as implementation of an ERP system, the likelihood that any real change will be effected or benefits recouped from the investment are reduced.**
- **The decision to implement seventeen modules at once is high risk in the opinion of both PeopleSoft and the consulting firm working with UNDP, UNOPS and the other UN partners.**

Although the system will go live on January 1, 2004, UNOPS is still identifying existing work flows and determining the implications and changes, have not developed a contingency plan, is training people on a "need to know" basis, has not identified existing "shadow systems' that should be included in the process and has not developed a new UNOPS Chart of Accounts.

Recommendation No. 35: ***UNOPS should immediately conduct an ERP implementation "readiness/risk assessment", in consultation with the system integrators, as required, to identify the highest technical, business and human risks as well as opportunities to UNOPS.***

Recommendation No. 36: ***Once the readiness/risk assessment is completed the UNOPS Executive Director should ensure that sufficient resources are made available to address the issues raised.***

6.2.7 Financial Practices, Policies and Procedures

The IRT noted that the current set of UNOPS financial policies and procedures has to be updated. A project to update the policies and procedures was in process in recent years, led by LPSD. The project was put on hold given the impending ERP implementation and business process review.

In the past, lack of an updated set of financial policies and procedures has contributed to the development of different approaches to financial processing across divisions, development and use of parallel financial systems, and a range of policy interpretations across UNOPS, and a lack of accountability.

Recommendation No 37: The complete suite of UNOPS financial policies and procedures should be revamped and developed to support good financial principles.

Examples of the types of issues that should be addressed include: the rules, requirements and roles and responsibilities for recording obligations and income, the forecasting of expenditures and income, carrying out delegated financial authorities, preparing and presenting financial information to clients, and monitoring and managing administrative and project budgets.

***Recommendation No. 38:** UNOPS should work towards establishing or building processes and an environment where corporate policies and procedures, especially those related to financial transactions and financial management, are well understood and consistently applied.*

6.3 Procurement

Procurement is a central part of the services offered by UNOPS to international clients. Fees for procurement of goods and commodities are a major source of revenue.

6.3.1 Procurement Practices

UNOPS purchases a wide range of goods, works, equipment, commodities and consulting services for international development and humanitarian projects on behalf of various international organizations and governments. Traditionally procurement breaks down into 1/3 procurement of goods and equipment, 1/3 procurement of services and 1/3 contracting of personnel - the latter not being part of the procurement process but rather a personnel/HR function). The staff of procurement specialists and assistants in various divisions procures globally from manufacturers, distributors, re-sellers, agents, consulting firms, individuals, and non-government organizations and learning institutions. Project portfolio managers acquire consulting services and works in a highly decentralized manner.

In Copenhagen, UNOPS staff procures goods and commodities for the Japanese Procurement Program, consulting services financed by the Nordic Fund, and a wide range of products for the Government of Peru.

During the financial crisis of 2002, the procurement support section in New York was drastically reduced resulting in the elimination of technical procurement backstopping. An additional barrier to enhanced efficiency is the outdated and cumbersome financial system of pre-encumbrances and payment used by UNOPS.

To clients, UNOPS wishes to be known for efficient, low cost procurement services of commodities, goods and equipment and services from individuals and consulting firms. Mandated by clients to spend public funds, UNOPS is expected to be accountable and cost efficient.

The international business community expects UNOPS staff to be accessible and that the procurement process will follow fair and transparent rules. Since the funds spent on procuring goods and services are public funds, UNOPS is expected to follow international public procurement standards.

UNOPS has to strengthen its procurement function to meet state-of- the-art international public procurement and contracting standards compared with other agencies of the UN system. During the course of this review, a number of issues related to the procurement process were identified. These are discussed below.

6.3.2 Reporting structure

The positions and titles of procurement professionals and support staff vary widely and are, at times, inconsistent. At headquarters and in field operations, procurement specialists and procurement support staff report to portfolio managers. These report to regional thematic or regional division chiefs.

The context of decentralization of the decision process without strong oversight reduces the cost effectiveness of the procurement activities. Among these are:

- **Limited exchange of procurement information between divisions on qualified vendors, contractor performance, professional best practices and lessons learned;**
- **Duplication of information gathering and systems. UNOPS created two separate UNOPS web sites at headquarters and Copenhagen PPS to inform potential suppliers about upcoming business opportunities;**
- **No possibility of consolidated purchase efforts to achieve volume discounts;**
- **No institutionalized information sharing processes or common data bases which would allow vendors to identify areas within UNOPS potentially interested in their products and/or services;**
- **No procurement backstopping from Headquarters or between divisions;**
- **Potential for abuse of authority and poor procurement decisions by portfolio managers and division chiefs; and,**
- **Lack of transparency of the procurement process.**

6.3.3 Procurement Process

The UNOPS procurement process should strike a balance between demands of clients needing timely purchasing of goods, works and services and the need to meet the high standards of public procurement.

Our review of the procurement process suggests that generally UNOPS has met this challenge. Nevertheless, improvement to the process could effectively be made:

***Ability to plan what will be purchased*. Since portfolio managers do not follow a project management approach to delivery, contracting is not included in the planning. Close consultations with client and a rigorous project management methodology would assist project managers to define what will be purchased, and a calendar as to when the goods and/or services are required and communicate it to procurement staff well in advance.**

***Inadequate information technologies in support of procurement*. E-commerce solutions should be developed wherever possible. There is no organization-wide roster. UNOPS procurement staff and portfolio managers have individual approaches to source requirements. Only the Copenhagen**

office systematically advertises expression of interests and contract award on its web site.

UNOPS procurement manual. The current manual is out of date and its content shared among staff. It is not on-line and promulgated as the source of reference for all procurement operations.

Responsibility for consulting services contracting. The current process does not always provide sufficient notice and visibility.

Central Registry. UNOPS should develop and maintain a central registry of procurement and contract files.

6.3.4 Procurement Training

Few members of staff involved in procurement of goods, works and contracting services have had formal professional development in the area of public procurement. Of twenty-nine staff members (procurement assistant, specialists and project portfolio managers) who agreed to discuss procurement issues for the purpose of this Review, less than half had academic training in contract and/or supply chain management. The balance of staff members interviewed learned their skills on the job. The absence of a unified formal training and/or certification program provides grounds for inconsistencies in practices.

6.3.5 Accountability and Transparency

The UNOPS structures and business processes need to be strengthened to better support accountable and transparent procurement and contracting. Efforts made by staff, as for example internal procedures and tools developed in Copenhagen, to improve quality and to make the process transparent, have not been adopted system wide.

There is a need to improve statistical reporting. PRAC reports consistently on its procurement reviews (recommendations over 100K). Such procurement represents over half of procurement activity. Statistics on procurement activities under this threshold are collected manually at the division levels. This results in slow reporting and incomplete procurement statistics.

6.3.6 Recommendations

In order to render UNOPS procurement services more economic, efficient and effective, the following recommendations are made:

Recommendation No. 39: ***The procurement of goods, works and contracting for services should be a UNOPS core competence, following international public procurement standards, low cost and responsive professional public procurement service and should use state of the art procurement and contracting processes supported by information technology and E-commerce.***

Recommendation No. 40: *Responsibility, authority and oversight for procurement of goods and services should be centralized, reporting to a chief of procurement services. Delegation of operational authority should be assigned to specific positions or persons, at the regional or project level, to meet specific client needs for timelines, efficiency and effectiveness. The delegation of authority should be subject to specific financial and duration limits.*

Recommendation No. 41: *Professional personnel engaged in procurement should have formal procurement training and should demonstrate competence and ability to conduct professional procurement.*

Recommendation No. 42: *UNOPS procurement professionals should encourage, and actively promote, cooperation with other procurement offices of the UN, in particular IAPSO, to take advantage of existing prices, terms and conditions negotiated under any supply arrangement with UN suppliers.*

Recommendation No. 43: *The change management team for the introduction of ERP systems to UNOPS should include a senior procurement officer with strong information technology background to ensure that the new systems fully support procurement operations and incorporate E-commerce processes.*

Recommendation No. 44: *UNOPS procurement professionals should devise and produce a web-based UNOPS procurement handbook and a*

UNOPS procurement-training program. Changes and updates to the new manual and training requirements should be promulgated.

Recommendation No. 45: UNOPS should consider formalizing an arrangement with IAPSO with a longer-term view of reducing overlap and duplication between UNOPS and UNDP operations.

6.4 Assessment of Viability of Self-Financing

The scope of this review included development of a cost model to project various scenarios of UNOPS operations in order to assess the viability of the organization.

To test various scenarios and assumptions, a detailed Excel simulation model was constructed. The model includes a breakdown of administration costs to the level of line item by division. Personnel costs are broken down to numbers of personnel in each classification category by division. On the revenue side, project income is projected by division, by individual, numbers of projected chargeable days and percentage mark-up. Each of the variables may be manipulated individually, in groups, by division or for UNOPS in total.

The viability of UNOPS business model as a self-financing entity within the UN system and in the context of a volatile business environment was assessed. The team members proposed and discussed various scenarios based on the market assessment and a review of UNOPS systems, processes and operations. Potential scenarios assessed as being most likely based on events outside the aegis of UNOPS and/or achievable based on whether or not they appeared doable were tested using the model.

6.4.1 Overview of Scenarios

Potential Markets

In the short term and in the absence of immediate improvement to revenue potential, the various scenarios simulated were based on the perceived immediate need to:

- Further reduce cost through structural change to flatten and rationalize the organization;
- Realize efficiencies by streamlining and standardizing processes, improving resource allocation, and improving resource and knowledge sharing; and,
- Further decentralization of operations to less expensive venues and the outsourcing of a number of non-core functions.

Revenue

To establish potential revenues, the relationship between workload, time and revenue was examined to the extent feasible. Assumptions were made with respect to organizational efficiency. In addition, the information gathered from a survey of a sample of Portfolio Managers was used to assess organizational impacts. Various parameters related to restructuring the organization were incorporated into financial simulations of UNOPS operations.

Cost Structures

The costing structures at UNOPS were reviewed. Costs associated with personnel, employee and contractor benefits; fees and service costs paid to organizations such as UNDP, occupancy costs, and a number of other overhead areas were assessed and related to efficiency of the organization. Of particular importance in this regard was the potential impact of the new ERP (PeopleSoft) system.

6.4.2 Financial Simulations of Viability

The first runs of the EXCEL model were used to recreate the financial position as shown in the 2003 Business Plan. Details of organization structure, current personnel levels and locations, current revenue calculations based on PMO described level of effort, current expenses in various locations, etc. were used. Once the model formulas were calibrated to faithfully reproduce the information contained in the Business Plan, some scenarios, based on the existing revenue, organizational and cost structures were simulated.

It should be noted, that although detailed analysis and logical assumptions were made in calculating the amounts in these simulations, the calculations are only intended to be for illustrative purposes of "ballp[illegible]at-if scenarios" based on general principles and directions, rather then as detailed budget forecasts based on concrete management decisions.

Potential Scenarios

Exhibit 18 below compares UNOPS' projected 2003 financial forecast to three scenarios or "what if" situations:

Scenario 1 displays what happens if the existing 2003 forecast is adjusted for staff costs and ERP costs to incorporate the organizational restructuring proposed in the report. Clearly if the revenue situation does not change, a $1 million cost reduction will be required to offset these costs.

Scenario 2 displays what happens if UNOPS invests 5% of revenue to implement staff training and 5% to also commence replenishing the reserve. The combined $4.45 million in new costs in addition to a $500 thousand contingency will have to be offset by operating cost reductions of $4.9 million.

Scenario 3 displays what will happen if income drops from 7.3% to 7% in addition to the funding of training (5% of revenue) and additions to the reserve (5% of revenue). In this case, operating costs must be reduced by $6.2 million.

Finally, Scenario 4 indicates that if income drops from 7.3% to 6.5% and if UNOPS wishes to contribute (5% of revenue) to training and (5% of revenue) to rebuilding the reserve, operating costs will have to be reduced by $8.4 million to compensate.

Exhibit 18

Overview of Potential Future Scenarios and Calculation of Required Cost Reductions

		Scenario #1	Scenario #2	Scenario #3	Scenario #4
				Scenario #2 Expend., & 7% Income rate	*Scenario #2 Expend., & 6.5% Income rate*
		Forecasted 2003	*Adjust 2003 Expenditures*		
		$	*$*	*$*	*$*
Income					
Project Income		35,300,000	35,300,000	33,908,000	31,486,000
Service Income		8,200,000	8,200,000	8,200,000	8,200,000
Other Income (Rent)		1,000,000	1,000,000	1,000,000	1,000,000
Project Delivery		*484,400,000*	*484,400,000*	*484,400,000*	*484,400,000*
Fee Rate		*7.3%*	*7.3%*	*7.0%*	*6.50%*
Total Income	A	44,500,000	44,500,000	43,108,000	40,686,000
Administrative Expenditures					
Status Quo Admin Expenditures		44,477,345	44,477,345	44,477,345	44,477,345
Training (est. as 5% of revenue)			2,225,000	2,155,400	2,034,300
Reserve Contribution (estimate as 3-5% of revenue per year)			2,225,000	2,155,400	2,034,300
Total Administrative Expenditures (including contribution to reserve)	B	44,477,345	48,927,345	48,788,145	48,545,945
Reserve Transactions					
Staff Separation Costs		300,000	0	0	0
ERP-related costs		700,000	0	0	0
Miscellaneous—Cushion/TBD		0	500,000	500,000	500,000
Total Reserve Transactions	C	1,000,000	500,000	500,000	500,000
Total Expenditures (Administrative plus Reserve Transactions)	D= B + C	45,477,345	49,427,345	49,288,145	49,045,945
Net surplus/(deficit) Including Contribution to Reserve	E= A-D	977,345	(4,927,345)	(6,180,145)	(8,359,945)
Amount of Required Cost Reductions to cover all Expenditures (including Contribution to Reserve)–Rounded		**$1 million**	**$4.9 million**	**$6.2 million**	**$8.4 million**

6.4.3 Assessment of Viability

As explained in the Marketing section of this report, the most likely trend at present is for some further decline in UNDP business. However, if UNOPS can reduce costs and improve its quality of service the decline may be avoided. While there are also growth opportunities for UNOPS within UNDP, especially in the global programs, the development of this business and the volume of non-UNDP activity will require proactive market development.

Accordingly, the team regards the potential for greater project volume as longer term, dependent on reduction of cost and enhancement of efficiency, together with an active program of marketing. The extent to which the UNDP volume can be replaced with non-UNDP business is not clear at present.

Furthermore, in the longer term, UNOPS must begin a program of reinvestment in some of the activities suspended since the financial crisis. In order to maintain the level of project implementation services that is currently being carried out by UNOPS and to prevent further erosion of that business, the organization must reinstate programs of investment in systems, training and business development through promotion and marketing. There is also the necessity of generating a sufficient level of surplus to replace the depleted operational reserve.

For purposes of simulation, a conservative figure for projected revenue was selected. A training budget equal to 5 percent of revenue or $2.25 million was applied. Business development costs were projected at 3 percent of revenue or $1.3 million per year. Replacement and upgrading of systems was budgeted at $2 million, a modest reinvestment for an organization the size of UNOPS. Rebuilding of the reserve to the level of approximately one quarter of operations or $10 million, over a period of eight to ten years, would require targeting a surplus of about $1.2 million.

Therefore, for UNOPS to be viable and sustainable, the administrative expense budget would have to increase by approximately $6 to $7 million per year. In the current situation, with current revenue not meeting current administrative expenditures, the organization is neither viable nor sustainable. There is a pressing need to reduce the current cost structure so that funds may be reallocated to reinvestment and rebuilding UNOPS.

Cost Reduction Options

There are a number of cost reduction options open to UNOPS management. A number of them were simulated using the Excel model. The options and the potential cost reductions associated with each are described in Exhibit 19. These options are also discussed in the various specifically applicable sections of the report.

Exhibit 19

Potential Options for UNOPS Cost reductions

Option	Estimated Cost Reduction
Relocate majority of NY based P level positions to geographic offices	$500,000
Relocate majority of NY based G level positions to geographic offices	$1,900,000
Relocate financial services to Kuala Lumpur office	$1,100,000
Decrease NY based Division Chiefs	$1,000,000
Increase efficiency by pooling portfolio administration resources, resulting in 2% cost saving	$900,000
Increase efficiency by 5% by standardizing processes, reducing double entry and reducing duplication of effort through effective introduction of PeopleSoft	$2,250,000
Estimated additional cost savings from contracting out some UNDP provided services in Finance & Admin and increase use of JPO's/interns	$350,000
Reduced Cost	$8,000,000
Additional rental income from sub-letting additional available Chrysler Building space	$1,000,000
TOTAL	$9,000,000

Applying these options and using the various parameters developed for the simulations scenarios, the following picture emerges:

	Project Income	$33,900,000
	Service Income	$ 8,200,000
	Other Income (rent)	$ 1,000,000
	Additional Rent (see table)	$ 1,000,000
	Total Income	$44,100,000
	Current Admin Expenses	$44,500,000
less	Estimated reduction (see table)	$ 8,000,000
plus	Estimated reinvestment	$ 5,000,000
	Total Admin Exp.	$41,500,000

Under the scenario of cost reduction through rationalization and flattening of the organization along geographic lines, relocating staff to less costly venues and contracting out some functions, UNOPS can be viable and sustainable.

The development of a plan to enhance economy and efficiency would be a very useful means of promoting business and making UNOPS the implementing agency of choice within the UN system.

The above scenario allows for the rebuilding of the reserve by targeting an excess of revenue over expenses of about $3 million. The targeting of such a level of rebuilding, that is approximately 10 percent of project revenue, would be considered modest in the private sector where variability of revenue is more a fact of life. Normal targeted reserves in the management consultancy sector would be in the range of 30 percent.

Needless to say, the extent of the above rationalization and organizational redevelopment will require careful planning. Accordingly, a change management team should be appointed to develop more detailed plan related to the selection and scope of the most promising and feasible options.

7.0 Improving the Business Model and Moving Forward

This section presents an overview of the major changes recommended by this report to the current UNOPS business model. As well, a suggestion for the first steps in moving forward is also included.

7.1 Business Model Impacts and Changes

As noted in Section 4 of this report, Accenture, the management consultancy, points out, in defining business models, that the selection of a business model entails a number of mutually interdependent implications. These implications create a set of imperatives for management of the organization.

In describing the UNOPS business model in Section 4, it was noted that at the time of its transformation into "a separate and identifiable entity in a form that does not create a new agency", a business model for the new UNOPS was defined. Some of the various conditions and restrictions of the new business model were:

- Revenue dependency - UNOPS was to be wholly dependent on the revenues generated for services provided.
- UNOPS would remain 'within the UN system' delivering services in partnership with UNDP and other UN operational agencies.
- It would work through UNDP field offices.
- UNOPS could not do any 'fund raising' on its own.

It was also noted that, while the business model was intended to be based on the revenue dependency discipline of suitable private sector models, there are notable differences, some of which have mitigated against the viability of UNOPS and its capacity to live within its revenues. Three weaknesses in the UNOPS business model are the relationship of fees and level of effort, the control of costs commensurate with fee income and the fragmentation of the organization resulting in internal competition.

Other differences, such as the necessity for UNOPS to work through UNDP and to use UNDP systems are also highly restrictive and inhibit the capacity of UNOPS to generate sufficient revenue to cover its cost by restricting the numbers and kinds of projects available to UNOPS. Furthermore, the restriction on UNOPS, which prevents the agency from working directly with potential clients outside of the UN system, has resulted in unnecessarily complicated arrangements in some cases and has increased overall project delivery cost.

There are a number of options available to address the situation in which UNOPS currently finds itself. One such option is to abandon the current business model and return UNOPS to a funded agency within the UN system. Another possibility would be to adapt a "mixed" model of cost recovery, rather than revenue dependency, as is in place at Consulting and Audit Canada.

A third, and in our view, a better option would be to more closely follow the revenue dependency model. However, it must be emphasized that this option has implications as described in the various parts of this report. Revenue dependency requires a capacity to carry out operations in a businesslike manner. It also requires the loosening of restraints and the removal of barriers to the provision of services.

There is a fundamental decision required.

> ***Recommendation No. 46:*** *The Executive Director should seek confirmation from the Executive Board that the revenue dependency business model, together with all its implications in terms of changes. removal of barriers and lessening of restrictions should be the approach to establishing long-term viability and sustainability of UNOPS.*

7.1.1 Clarification of the Business Model

The Business Model should be understood and accepted by all staff. Not all UNOPS and other UN agency staff clearly understand the true implications of revenue dependency.

The SMF Review Report questioned the viability of UNOPS business model as a self-financing entity within the UN system. Doubts were expressed as to whether UNOPS would remain viable as a self-financing entity within the UN system.

However, despite these doubts, neither staff nor clients interviewed for this review questioned the possibility of UNOPS not continuing with the same business model. The 2003 Business Plan opens with a quote from the Secretary General reiterating support for UNOPS. Clients regularly expressed the view that an independent UNOPS is an essential feature of the UN system. Reference was frequently made to the importance of the UN culture as a consideration for the review.

Thus, it does not appear that the implications of a revenue dependency business model are fully understood by UNOPS staff or by clients. Were UNOPS truly a private sector consultancy, there would be no question that continuation of the status quo would result in serious consequences for the organization and the people in it.

The competitive nature and cost recovery features of UNOPS were clearly defined by the Secretariat when UNOPS was established as a separate entity. Recommendations of some earlier reviews that would limit competition and direct projects to UNOPS have been rejected. Nevertheless, there appears to be a widely held belief that UNOPS will not be allowed to fail. There might be minor disruptions but careers and jobs at all levels would be maintained. This belief in the ultimate survival of UNOPS and the expectation of limited personal consequences for staff or managers considerably reduces the perceived need for change.

A precursor to and central feature of a UNOPS business model must be the certainty that UNOPS would indeed be allowed to cease operations with the attendant redundancy of all staff and managers.

> ***Recommendation No. 47: The UNOPS Executive Director should make clear to all staff and management the potential for and serious consequences of insufficient commitment to participation in a change management process designed to revitalize UNOPS.***

7.1.2 Enhancement of Viability

Changes should be made to make the organization less vulnerable to external pressures and changes in the business environment.

While the market analysis shows that there is a strong potential for UNOPS to secure additional project work and revenue, this potential is predicated on UNOPS being able to demonstrate improvements in project management efficiency and effectiveness. In the absence of immediate improvement to revenue potential, as the projected budget for 2003 demonstrates, there is an immediate need to further reduce cost through structural change to flatten and rationalize the organization, further decentralize operations to less expensive locations and to outsource non-core functions, where cost-effective.

In this report, a number of recommendations are made that would make UNOPS viable and sustainable. However, "change management" is required to effectively make the recommended changes in a planned and orderly or systematic fashion and to implement new methods and systems without major disruption to the organization.

The changes to be managed lie within and are controlled by UNOPS. However, they must be made so as respond to the changing clients, shifting trends and influences in the market for UNOPS services and other external factors over which little or no control can be exercised.

Contemplated changes must remain within the limitations imposed by the UN system and regulations. However, care must be taken to distinguish between UN norms, rules, and regulations as against tradition and inertia. That 'we have always done it this way' cannot be accepted as an impediment to change.

> ***Recommendation No. 48:*** *In order to ensure an anticipatory or proactive response to the changes anticipated by this report and to mitigate the inevitable resistance to change, UNOPS should prepare a change management plan detailing the sequence of events and responsibilities for ensuring that each activity is adequately addressed.*

7.1.3 Setting Fee Levels

There is a requirement to make the process of fee setting more transparent to clients and thus to ensure that they see the value added of UNOPS services.

Many of UNOPS clients, with the notable exception of IFAD, as described below, continue to put downward pressure on UNOPS fees, passing on pressure from donors and in reaction to budgetary pressures of their own.

Trends toward direct execution result in the retention by clients of the less complex projects, leaving the more difficult and time consuming ones for UNOPS. Several reviews of UNOPS operations have noted the trend to greater complexity in projects given to UNOPS to manage.

There is a strong tradition in the UN system of charging administrative fees for project management and implementation based on a percentage of the overall delivery value of the project. The origin of the practice appears to be related to resistance by donors to project management and implementation expenses beyond an arbitrary, but agreed, percentage being retained by the agency delivering the project.

While it is reasonable to establish a maximum level of acceptable overhead for projects based on a percentage of the project's overall cost, the reverse, that is, setting the fee for project implementation based on that maximum acceptable level, is perverse and seriously distorts the relationship between fee level and level of effort. This may be seen in UNOPS by the very wide differences in the 'profitability' of the various divisions.

This method of fee setting is even more perverse where the maximum percentage is split between UNOPS and the agency requiring project delivery. For example, the traditional maximum percentage allowed for project 'overhead' within UNDP, we are told, is thirteen to fifteen percent. By process of inversion, this becomes the basis of the implementation fee, which is split between UNOPS and UNDP in cases where UNOPS is the implementing agency. Again by tradition, the split varies between seven and ten percent for UNOPS with the balance retained by UNDP.

To continue the example, as direct execution becomes more commonplace, the less complex projects remain with UNDP. Additionally, budgetary pressure requires UNDP to press for lower implementation fee rates despite the rising complexity of the projects being turned over to UNOPS for management and implementation.

Generally, UNOPS staff and management regard the fee establishment methodology as acceptable. It is claimed that, based on long tradition and on the law of averages, fee levels set as a percentage of delivery throughput are viable. As the variability of results among and within divisions demonstrate, tradition and average are very poor substitutes for assessing the level of effort required to accomplish the necessary tasks associated with project management and implementation and charging fees accordingly. Furthermore, as projects grow increasingly complex and difficult to manage and implement, a percentage-based fee becomes more and more unattractive.

For UNOPS, a business model, which provides for the establishment of fees for service based on traditional, average percentages of project throughput costs is neither transparent, viable nor sustainable. Such fees cannot be defended in negotiations with clients.

Furthermore, in negotiating with clients, UNOPS has a major disadvantage in using a percentage based fee structure. For other UN agencies, management and implementation costs based on a percentage of the value of project throughput are non-transparent. Agencies have the ability to shift personnel and other costs from administrative to project budgets obscuring the real cost of project management and implementation. UNOPS fees, expressed as a percentage of project throughput cost, are subject to spurious comparison.

With respect to per diem rates in the consulting and services industry, there are a variety of approaches to calculation. The intent of all calculations is to cover direct and overhead costs, and of course, in the private sector, to also cover a profit margin or return on investment. Per Diem rates are usually determined on the basis of a formula similar to:

Individual's Salary and Benefits + Total Overhead to be covered during the period
# of Days expected to be chargeable during the period

Based on current overhead costs and chargeability assumptions, UNOPS is suggesting application of an overhead rate of 2.2. This rate does fall within a reasonable range, when compared to, for example, private sector firms where per diem rates range from 1.5 to 4 or 5 times the salary and benefits of personnel. An example of public sector requirements or expectations is the approach used by CIDA (the Canadian International Development Agency), which limits international consultants to a maximum overhead rate against salary cost only, of 2.5 to 2.8.

Another caveat that UNOPS must consider in developing per diem rates is the fact that the implicit assumption in the determination of per diem rates, especially in the private sector, is that the salary level of each person is commensurate with his/her skill set and the salary level is one that has been set based on market conditions. Therefore, in the case of a private sector firm, application of an overhead rate against that salary, together with an assumed chargeability rate is likely to result in a rate similar to competitors.

In a public sector context, where marketable skill sets are not directly linked to salary level or where skill sets are not matched to the task at hand, the resultant per diem rate and proposed cost of client service may be neither logical, nor competitive. In such an organization, a more appropriate approach would be based on costing projects using activities and the cost of carrying out these activities. This is the approach suggested for UNOPS in **Section 6.2.4** above.

> ***Recommendation No. 49:** The UNOPS business model should be based on fees established related to the level of effort required for the delivery of services.*

> ***Recommendation No. 50:** To support the fee for service business model concept, UNOPS should introduce a system to track time for project related activities.*

> ***Recommendation No. 51:** The UNOPS business model should include the preparation of fee for service proposals for projects.*

7.1.4 Revenue and Expense Targets

UNOPS has operated under the UN system of budgeting on a biennial basis. The biennial budget is updated on an annual rolling basis.

Traditionally, a 'delivery' target was set. This delivery target, the projected value of project flows through, and then became the basis of an income projection. Estimated income is based on three sources, project income expressed as a percentage of project value, service income and other income. An operational expense budget was established based on the availability of the projected income.

The events related to the business downturn in 2000 and 2001, which led to the budget crisis in 2002, indicate that this type of revenue and expenditure planning process is insufficiently sensitive to changes in the clients' environment and demand for UNOPS services. To remedy the more evident shortcomings, in 2003 UNOPS has focused on the accuracy of delivery and income forecasting. In addition to adapting more conservative predictions of delivery, a monthly monitoring of performance against plan has been introduced. UNOPS 2003 Business Plan intimates that UNOPS has received agreement from the Management Coordination Committee and the Executive Board to provide a budgetary forecast based on a one-year rather than a biennial program budget and forecast.

The new process is more sensitive to market conditions but it remains rooted in the projection of delivery. Income is projected on a monthly basis related to the value of delivery expected over the course of the year. Income is thus a notional amount while salary, benefits, rent, utilities, and all other operating costs are actual amounts. If any of the income generating projects are delayed, postponed or cancelled, there would be an income deficit. After a twenty two percent reduction in administrative expenses, there are practically no remaining discretionary expenses in the budget. The 2003 Business Plan notes that the challenge for the year will be to ensure that administrative costs are covered by income.

A UNOPS business model featuring revenue dependency and fee for service based on level of effort for services provided would necessitate a different planning process. Projected 'guaranteed' revenue would be based on signed contracts for services and the fees to be paid for those services. Additional 'hard' and 'soft' revenues would be based on outstanding proposals and the status of negotiations or the expectation of their becoming contracts.

Although UN procedures are such that project funds are available at the outset of a project, a 'cash flow' budget would be created corresponding to the level of effort and the attendant fees agreed to and budgeted for the project. Administrative expenses would be set in relation to the projected cash flow, albeit notional.

> ***Recommendation No. 52:** UNOPS business model should progressively reflect a system of projecting revenues related to contracts and proposals for fee for service and agreed level of effort.*

> ***Recommendation No. 53:** UNOPS should reflect the discipline required in revenue dependent business model by limiting administrative expenses to the available notional cash flow related to expended level of effort in project delivery.*

7.2 Business Model Enhancement

7.2.1 Operational Reserves/Revolving Fund

For a private sector style business model, continued financial health requires considerable flexibility in the control of expenditures. On a temporary basis, a private sector firm must have a capacity to weather a downturn in the market, absorb the excess cost on a temporary basis and restore the amounts 'borrowed' during the downturn when the market recovers or once the firm has adjusted to the new market conditions.

The business models of most consulting firms use a 'line-of-credit' facility to accommodate short term declines in revenue, allow for delayed receivables, make adjustments to personnel or expense levels, etc. One rule-of-thumb suggests that the line of credit should be sufficient to cover operations for one financial quarter.

Because of the UN accounting and budgeting system, described elsewhere in this report, there has not been a need for an operational reserve revolving fund to act as a line of credit to sustain operations during the year. The reserve acts primarily as a means of meeting budgetary shortfalls at year-end.

However, by adapting a more market oriented revenue dependency approach to the UNOPS business model proposed herein, UNOPS would be faced with more realistic market type discipline on notional cash flow. That is, UNOPS would have to stay within realized income from the delivery of fee for service. While the revenue would continue to be notional under UN budgetary and accounting processes, nevertheless, the progressive monthly draw down or addition to an operational reserve revolving fund would strengthen the market type discipline and act as a key organizational performance indicator.

> ***Recommendation No. 54:** The UNOPS business model should include the discipline of an operational reserve revolving fund line of credit. The line of credit drawdown also serves as a key operational performance indicator.*

According to the 2003 Business Plan, UNOPS has at present "no margin for error in meeting delivery and income targets". Furthermore, the plan recognizes that there will be a significant challenge to ensure that administrative costs are covered by income.

The business plan states that staff and corporate development were drastically reduced. Staff training has been reduced to 'on-line' courses. Introduction of a planned knowledge management program has been deferred indefinitely. Even so, the plan shows that UNOPS reserve will be reduced once more to just over three million dollars. As noted above, the rule of thumb used by private sector revenue dependent consulting firms would suggest that UNOPS should have a strategic reserve revolving fund of approximately ten million which would serve as the equivalent of a line of credit.

> ***Recommendation No. 55:** The UNOPS business model should set as a target the rebuilding and maintenance of a strategic reserve revolving fund of approximately ten million dollars.*

UNOPS has gone through a period of adjustment and radical reduction of administrative cost. Nevertheless, according to the 2003 business plan, the budget projects for the balance of the year indicate that a further draw down of approximately one million from the operational reserve will be required for the year. It will be a struggle to cover administrative expenses. The plan also states that current staffing levels may not be sustainable for UNOPS to retain a stable workforce.

Thus, while UNOPS is struggling to bring expenses down to a level supportable from revenues, that status has not yet been reached. Furthermore, market study and analysis indicates that there is considerable likelihood that the market will decline further, both in terms of overall project numbers and in revenue per project, before the market potential of new clients and projects may be felt.

In the meanwhile, all reinvestment in personnel, systems, training and knowledge management have been suspended indefinitely. The depth of the problem is illustrated by the level of investment in the ERP PeopleSoft initiative where UNOPS appears to be unprepared for the underlying major change in operations. Only $170,000 have been set aside for PeopleSoft training of staff on a 'need to know' basis. Moreover, staff is asked to train themselves using on line training software.

Clearly, this situation is not viable for the long term. UNOPS must have the capacity to reinvest in training and systems. And, over the long term there is a need to begin the process of rebuilding the operational reserve so that it may be used as a revolving fund.

> ***Recommendation No. 56:*** *To restore the long term viability and sustainability of the business model, UNOPS should establish target amounts for promotion, reinvestment, training and rebuilding the operational reserve and incorporate these into the administration expense planning and budgeting process.*

7.2.2 Bridge Financing

In the assessment of the viability of self-financing or revenue dependency, it was emphasized that the current overhead cost structure of UNOPS is too high.

A number of cost reduction options were presented. Were all of these options exercised, UNOPS would be in a good financial position. Revenues would more than cover expenditures and the organization would be rebuilding an operational reserve to serve as a revolving fund or line of credit to support operations.

However, realistically, the recommendations for flattening and streamlining of the organization and for relocating some functions and positions to lower cost venues will require some time to implement. The enhancements to efficiency and effectiveness that will result from resource pooling and sharing, from contracting out and from introducing PeopleSoft will only be gradually introduced as systems and processes are standardized, promulgated and accepted by management and staff.

The need to immediately increase investment in a change management plan and implementation team for the introduction of PeopleSoft and the training of personnel in its use is very likely to deplete the balance of the operational reserve. In all likelihood, UNOPS might enter into the next financial year with totally depleted reserves. The agency will also be facing the additional costs associated with the changes needed to create a more viable, sustainable organization.

Were a private sector business in such a situation, it would seek short term bridge financing for implementing the changes. A strong business case could be made for the restructuring and the restoration of financial health. If the UNOPS business model is confirmed by the Executive Board, then UNOPS would also have a strong business case for requesting bridge financing.

> ***Recommendation No. 57:** The Executive Director should seek bridge financing to cover the cost of restoring the financial health of UNOPS and ensuring the viability and sustainability of the agency.*

The financing could be in the form of a repayable contribution added to the operational reserve revolving fund. The terms, conditions and accountability for the draw down and reimbursement of the bridge financing should be very specific, directly related to the restructuring and be limited to a specific period for the restructuring as set out and costed in the change management plan for UNOPS.

7.2.3 Organizational Restructuring

In *Section 6*, a number of issues concerning the present organizational structure of UNOPS were discussed. Multiple divisions based both geographically and thematically are engaging in unhealthy competition for projects and positioning, leading to a fractured organizational structure. The resulting negative impacts on staff and clients are untenable for the UNOPS of tomorrow.

There is a requirement to fundamentally restructure UNOPS to focus on clients' needs, and to meet these needs through effective marketing and project execution work practices. UNOPS provision of services must be seamless to the client.

Underlying Principles

Transforming an organization involves more than just moving to a new structure on the organization chart. Successful world-class organizations focus on optimizing core work processes and promoting responsiveness, agility and knowledge sharing. Artificial organizational barriers, ponderous approval steps in a decision-making process and lack of appropriate information at each organizational level severely constrain performance.

UNOPS clients and staff, as well as financial analysis conducted for the Independent Review, identified the need to streamline UNOPS by reducing/rationalizing the number of divisions. The manner in which the divisions are characterized must also be reconfigured to ensure that project implementation takes place in the most cost-effective way possible. The challenge is to restructure the costly and confusing layering of geographic and thematic divisions/units into a cohesive new organization.

The Independent Review Team is recommending the following organizational structure for UNOPS. The assumption behind these recommendations is that action will result in:

- Reducing confusion among clients
- Sharpening focus on client service and quality delivery

- Unifying UNOPS with one mission and one culture, and
- Creating a high performance organization strategically aligned to meet the project execution needs of the future.

The current thematic and geographic divisional structure is unnecessary. UNOPS should be restructured into five geographic divisions, one headquarter/corporate division, and a small number of processing centres. Administrative and processing functions, for the most part, should not be located in New York City. Instead, such functions would be transferred to less expensive locales, such as Kuala Lumpur and possibly Copenhagen.

Geographic Divisions

The Independent Review Team believes that the geographic divisions should be as follows:

- Asia Division (Kuala Lumpur);
- Europe Division (covering Eastern Europe and the Middle East, currently located in Geneva, but other locations like Copenhagen or Rome could perhaps be considered)
- Africa 1 Division (Nairobi);
- Africa II Division (Dakar); and
- New York Division (Americas, plus Thematic Expertise Clusters);

With respect to the geographic division, each division should be led by a senior manager, who has the requisite delegated authority to "run a business", but who must also operate within corporate policies, guidelines and other directives. It is imperative that the senior manager be given both the authority and accountability to run his/her respective business unit. Personnel working in geographic divisions should report directly to the regional senior manager, but might perhaps take policy direction or use tools provided by NY corporate headquarters. Regional managers would then be responsible for determining where out posted project offices should be located (or marketing offices) within their geographic sphere.

Although the majority of personnel involved in delivering projects in each geographic region would most likely also be physically located in the region, there may well be instances where the client would prefer that the project manager be located elsewhere, for example, closer to the client head office. The decision of which staff should be physically located in each region must be determined only after a thoughtful and detailed cost/benefit analysis of each existing UNOPS portfolio. Although the portfolio manager could, for example, be physically located in the New York Division, the requirement to deliver a project in the Asia region would be organized through simple communication and discussion with the Regional Manager to discuss details related to allocation of required regional resources to the project, required communication mechanisms between the New York Manager and the Regional Chief/Director, and confirmation of the income split between the two divisions, based on level of effort expended.

The senior manger responsible for each of the five regional divisions should be held accountable for, and appraised on, the basis of such things as:

- Effectively planning, monitoring and achieving an annual approved business plan that is in line with the overall UNOPS corporate strategy and plan;
- Making effective use of regional resources by:
    - Using an appropriate mix of permanent, fixed, casual and temporary personnel; and
    - Balancing workload among regional resources but at the same time ensuring that tasks and responsibilities are assigned to personnel based on job descriptions, skill sets, level/position, and career growth/professional development aspirations
- Providing regional resources to support project delivery co-managed with portfolio managers from the specialty clusters in New York, as required
- Sharing regional resources, as required to assist project delivery requirements ensuring that all work carried out by the organization is based on fees negotiated on the basis of level of effort (i.e. a costing based on anticipated activities and the per diem cost of personnel involved in providing the service—direct salary costs plus an appropriate overhead markup determined based upon "what the market will bear"
- Ensuring that the division complies with all corporate policies and guidelines, tools and templates;
- Distributing and sharing regional best practices with the rest of the organization (likely through the intranet);

- Identifying and developing business opportunities for his/her regional office as well as for other regional UNOPS offices;
- Liaising with and maintaining relationships with UNOPS clients located in the region;
- Developing and growing UNOPS personnel;
- Using corporately prepared UNOPS marketing materials (that may need to be tailored to meet specific regional client requirements; and
- Ensuring that all client deliverables produced by the regional office meet or exceed the standards set by UNOPS corporate headquarters.

The New York based Americas Division and the Geneva based Europe and Middle East Division would, in addition to geographic responsibility also host specialty expertise for areas such as mine action, environment, and rehabilitation and reconstruction. These specialty expertise groupings would support geographic regions, and could be responsible for providing the focus for a knowledge network in specific technical areas, available to all of UNOPS.

Corporate Division/Headquarters

The second New York division should be the Corporate Headquarters. The core functions of Corporate Headquarters should be:

- Policy direction for Finance and Administration, Legal, Procurement, IT, and Human Resources;
- Monitoring and ensuring compliance with corporate policies, guidelines, standards, etc.; and
- Client liaison with UN and other client organizations located in New York City.

The personnel at Corporate Headquarters should be a small contingent focused only on strategy, planning, and development of policy, procedures, guidelines, templates and tools to effectively support the regional divisions in client service. Administrative and processing functions should be kept to a minimum in the New York location.

Given the above, the Independent Review believes that a lot of the transactions processing and specialized information technology projects can be distributed to other Divisions, especially K.L. in Malaysia, where costs are much lower.

The implications for UNOPS are therefore, a slimmed down corporate headquarters in New York, with corporate functions and marketing occurring in each division as appropriate, and with processing and systems development distributed to the most cost effective division

7.3 Priorities for Moving Forward

This report contains fifty-six recommendations. They range from the general, such as seeking a change to the UNOPS mandate to permit implementation of projects and programs on behalf of recipient governments, to specific suggestions such as managers should receive training on the proper utilization of performance reviews as a management tool. The obvious first order of business for the new Executive Director is related to how to proceed with revitalizing and rebuilding the shattered moral and depleted finances of UNOPS.

The following paragraphs offer a suggestion for the first steps in moving forward.

7.3.1 Confirmation of Business Model

As noted at the outset of this section, it is the view of the independent review team that UNOPS is viable and sustainable within the limitation and the independence of a revenue dependency business model. Such a model, reasonably applied, would limit UNOPS to living within the revenues generated by clients. The clients would have to see value-for-money and receive good service.

However, the revenue dependency model must allow UNOPS a certain degree of independence in its application. Revenue dependency has a wide range of implications as described in the various parts of this report. Above all, revenue dependency requires a capacity to carry out operations in a businesslike manner. It requires the loosening of restraints and the removal of barriers to the provision of services by UNOPS.

The first and most fundamental first step therefore, must be taken by the Executive Board. The Executive Director should, in the first instance, seek clarification from the Board that the revenue dependency business model, together with all its implications in terms of changes, removal of barriers and lessening of restrictions, is confirmed as the approach to take to the long term viability and sustainability of UNOPS.

However, a simple confirmation that "UNOPS should be revenue dependent" is insufficient. The confirmation must include reference to some of the implications of the removal of barriers required for business like operations that are included in the various recommendations under marketing, organization, financial systems and procurement.

7.3.2 Costed Change Management Plan

On the other hand, providing UNOPS with assurances of support and confirmation of the principles of revenue dependency could have disastrous results if UNOPS does not undertake considerable change to the organization, cost reduction, operations and the development of a rational market development program.

There are fundamental changes required to flatten and reshape the organization and to considerably reduce the overhead related to a top-heavy structure. There are costs associated with unnecessary staff concentration in New York, a very high cost option, while much of the project work is undertaken in the field. The introduction of PeopleSoft will fundamentally change operations. Development of business should be rationalized along geographic lines and internal, destructive competition to support delivery targets, with only tenuous relation to income, should be eliminated.

To effectively make the changes contemplated by this report in an orderly and systematic fashion, while minimizing further damage to internal morale and external client relations, will require setting up a change management team and preparation of a change management plan. To ensure an anticipative or proactive response to the changes and to mitigate against the inevitable resistance to change, the change management team must be selected to ensure unbiased review of the issues related to the required changes.

The change management plan should detail the sequence of events and responsibilities for ensuring that each activity is adequately addressed. The plan should be openly and actively discussed by change management team members who must be perceived as impartial to overcome deep seated mutual mistrust between staff and management of UNOPS.

In order to proceed to the third and, perhaps, most crucial step of the suggestions for moving forward, the cost implication and the timing of each of the events and actions, detailed in the change management plan, should be fully developed. This will serve three purposes. It will provide UNOPS with;

- An action plan against which progress and the performance of personnel responsible for particular elements of the plan may be monitored;
- A budget and cash flow schedule for the changes; and
- The basis for a business plan, which could be presented to the Executive Board in support of a case for bridge financing.

Such a business plan must detail the scope and timing of organization and relocation changes and investment in training and systems. It must include timing, cost and cash flow projections related to UNOPS operations, the expected draw and repayment schedule for reserve funds. The new business plan should be a prerequisite of discussions with the Executive Board on bridge financing.

7.3.3 Bridge Financing

The third suggested initial step is to raise the money required to fund the change process. While in the longer term, the review team believes that UNOPS should be able to reduce operating costs by approximately eight million per year, that result, based on projected model scenarios and estimates, will require some time to realize.

In the meanwhile, there is a requirement for immediate investment in personnel, systems and training to meet the looming deadline associated with the introduction of PeopleSoft. Furthermore, there increase investment is needed for a change management plan and implementation team. As noted above, these financial needs will very likely more than deplete the balance of the operational reserve.

However, the review team believes that a strong business case could be made for restructuring and restoring the financial health of UNOPS. The UNOPS business plan, discussed above and based on a well founded change management plan, detailing changes and showing the cash flow implications, should be the foundation of this strong business case for requesting bridge financing.

Once the new business plan for change is ready, the Executive Director should seek a UN source of and support for the necessary bridge financing to cover the cost of restoring the financial health of UNOPS and ensuring the viability and sustainability of the agency.

As noted above, the bridge financing could be in the form of a repayable contribution and added to the operational reserve revolving fund. The terms, conditions and accountability for the draw down and reimbursement of the bridge financing would be as outlined in the business plan for change.

This section of the report has set out suggested next steps for the new Executive Director on how to proceed with revitalizing and rebuilding UNOPS.

Without confirmation of the UNOPS business model as a true revenue dependency with its implications for businesslike operations, UNOPS will be severely limited. Without a strong commitment to changes in organization, cost reduction, operations and the development of a rational market development program, UNOPS will simply be delaying the inevitable. Without a business plan for change supported by specific activities, responsibilities and accountabilities, a strong business case for rebuilding cannot be made to support bridge financing.

Perhaps then, these initial steps should be considered as preconditions to the renewal of UNOPS and its restoration to financial health.

Appendix A: List of Documents

General

- *UNOPS Briefing*
- 2000 Annual Report. *Good Works, Principals – Practice.*
- 2001 Annual Report. *Why are we here?*
- Executive Board of the United Nations Development Programme and of the United Nations Population Fund. Annual Report of the Executive Director on the activities of the United Nations Office for Project Services, June 2003.
- Note of the Management Coordination Committee of UNOPS, September 2002
- Executive Board of the United Nations Development Programme and of the United Nations Population Fund. Role and Functions of the UNOPS Management Coordination Committee and Report of the Executive Director on ways of Establishing the office as a separate and Identifiable Entity, August 1994.
- 2002 Comprehensive Planning Exercise: Budget, April 2002
- Meeting with Mr. Gerald Walzer, January 2003.
- UNOPS. 2003 Business Plan, May 2003.
- Deck: UNOPS Reform Project – A Blueprint, February 2002.
- Deck: UNOPS Reform Project – Presentation to the UNOPS Management Coordination Committee, March 2002.
- Executive Board Meeting Notes, June 1994, October 1994
- Note to the Executive Director, a.i. on the Ress Division
- UNDP Evaluation Office. Evaluation of the Relationship Between UNDP and UNOPS, December 1999.
- Joint Inspection Unit. UNOPS: Broader Engagement with United Nations System Organizations, Geneva 1998.
- UNOPS: Independent review pertaining to the business model and related issues of the United Nations Office for Project Services, January 2003.
- Terms of Reference for an Independent review of the United Nations for Project Services, September 2002
- UNDP Fifth Annual Funding Meeting, June 2003
- Juan Lula Larrat, Mission Report to Argentina, May 2003
- Argentina Portfolio: An Overview, 2004
- UN Conference on Trade and Development, The Least Developed Countries: Escaping the Poverty Trap, 2002
- The Ten Essential Elements of the UNOPS Strategy
- 2003 Portfolio Review of Lac Unit, Africa I, Africa II, RESS, and Copenhagen.
- The UNOPS Management Co-ordination Committee (MCC) and the Users Advisory Group (UAG)
- Action Plan Project Approach to UNOPS Reform

- May 2, 03 presentation "Peoplesoft/ERP--Enterprise Resource Planning System for UNOPS"
- Lac Division--miscellaneous documentation related to the financial status of LAC
- UN-UNOPS Reimbursement Agreement for Central Services
- UN-UNDP draft agreement for Central Services
- Report by Joint Inspection Unit: support Costs related to extra budgetary activities in organizations of the Un systemexample MSA agreement

PMO workload Related

- PMO--Discussion paper on new Geneva version of PMO
- PMO--Geneva version--Guidelines to the UNOPS fee Assessment and Workload System
- PMO--discussion paper on inadequacies of current version
- PMO--Example print out of input screen
- PMO Workload documentation (old version)

Human Resources

- Downey Associates International Inc. *Leadership Development Training Needs Assessment*, July 2000.
- Operations Division Chief's Retreat: Facilitator's Comments, July 2000
- Operations Division Chief's Retreat: UNOPS New York Operations Division Chief's Retreat, June 2000
- Mohsen Bel Hadj Amor, Standards of conduct for the international civil service, January 2002.
- UNOPS Staffing Data
- Staff members against administrative budget
- Conduct in the Workplace, March 2001
- UNOPS and International Civil Service Commission Code of Conduct, January 2002
- Analysis of Generic Job Profiles, April 2003
- Job Profiles
- UNOPS Generic Jon Profile Project, January 2001.
- Performance Management Development System
- UNOPS Performance Management Development System: Guidelines for application in the Pilot offices in Copenhagen and Kuala Lumpur.
- Current UNOPS PAR Form
- Geneva Organizational Chart
- Chart listing all UN system agencies
- UNOPS Staff Management Forum: SMF-Staff Consultations, December 2002
- OPS Staffing Lists

- May 2, 03 presentation "Peoplesoft/ERP--Enterprise Resource Planning System for UNOPS"
- UNOPS-UNDP MOU on the joint Implementation of the ERP Project

Financial

- Executive Board of the United Nations Development Programme and of the United Nations Population Fund. Risk Management and Surplus Income, May 1997.
- UNOPS Admin budget
- Bisrat Aklilu email: Ongoing Monitoring of Delivery and Income Projections, April 2003.
- KPMG Consulting. UNOPS Validation of Key UNOPS 2000/2001 Financial Parameters, February 2001
- UNOPS Financial Regulations and UNDP Financial rules
- 2001: Revenue and expenditures by Division--plus some overhead allocations to get income by division
- 2002: Revenue and expenditures by Division--plus some overhead allocations to get income by division
- 2003: Projected Revenue and Expenditures by Division--plus some overhead allocations to get income by division
- 2003 Projected: Revenue by Portfolio, within each division versus salary costs for portfolio
- 2003: Projected salary costs by individual by portfolio by division--detail schedule
- 2003: Projected salary costs by portfolio by division--Summary schedule
- 2003: UNOPS Pro Forma Costs for salary and Staff Costs, by city, by level
- 2003: Projected Admin expenditures, by account grouping, by division
- 2003: Actual Salary costs by level, by division as at May 31, 2003
- 2000/2001 Financial Statements
- 2003 Business Plan
- UNOPS Financial Regulations and UNDP Financial rules
- Chrysler Lease--Summary excerpt
- Schedule of Projected Sub-lease rental from Chrysler Building 2003/2004
- PAC--List of meeting dates 01, 02 and 03
- PAC Meeting minutes--four examples selected from 03 and 02
- Operational Review Group (ORG)--List of meeting dates 01, 02, and 03
- ORG meeting Minutes--four or five examples selected from 03 and 02
- PAC--Schedule depicting breakdown between Category 1 and 2 projects, by division for 2002
- Project Cost estimate--example worksheets from portfolio managers (own design)
- UNOPS Implementation Analysis Note--two examples

Procurement

- **Terms of reference of the UNOPS Local Procurement committee in Geneva.**
- **UNOPS: Broader Engagement with United Nations System Organizations, Geneva: 1998**

Appendix B: Questionnaires

Interview Guide for UNOPS Market Review

The United Nations Office for Project Services (UNOPS) was created in 1994 as a separate and self-financing entity of the UN system offering a broad range of services to the various organizations of the UN system. In January of 2002, the Secretary-General re-affirmed the role of UNOPS, in a note to the Executive Board of UNOPS, specifying, inter alia, that "if UNOPS is to continue to meet its key objective of being self-financing, it is essential that it receive sufficient business from organizations in the United Nations system."

At its annual session 2002, the Executive Board of UNOPS determined that an independent operational review of the business model of UNOPS should be undertaken. The review would include the cost effectiveness of the business model, the potential market for expansion of business opportunities for UNOPS within the United Nations system, and the establishment of a framework for a sustainable UNOPS.

Against the above background, we would like to obtain your views on trends in program delivery for your organization and trends in delivery modalities; your use of UNOPS and other delivery organizations in the past; and your views on the need for UNOPS services in the future versus other delivery modalities.

Trends

1. Please describe the program you manage and the current and future projected budget (program and admin)?
    a. What are the long-term trends in your program delivery?

2. Please describe your project implementation/delivery processes?
    a. Centralized vs decentralized?
    b. Basis for deciding on a delivery modality and the selection of an executing/implementation organization?

3. What do you see as the projected trends in delivery modalities? E.G., National execution, Direct Execution, Private Sector, UNOPS.

4. Can you provide an estimate of volume of business you will be doing over the next four years, and how much will be allocated to UNOPS?
    a. What would be the reasons for any projected increase or decrease in UNOPS projected volume?

5. **How has your organization used UNOPS services in the past? If so which ones:**
   a. **Project Management/Execution/Implementation**
   b. **Loan administration and supervision**
   c. **Advisory Services**
   d. **Other**

6. **Please describe the nature of the work that they have been doing for you?**
   a. **Are they involved in the project development process?**
   b. **Do you expect them to have technical expertise in your program area?**

7. **Please describe what your expectations of UNOPS have been in terms of the categories below?**

   a. **Have your expectations been met? If not why not?**

8. **Please describe the appropriateness of UNOPS administrative costs and your satisfaction with them?**

9. **For the services that your organization has used, please describe your level of satisfaction in terms of quality, timeliness, cost, overall delivery satisfaction? (Please rate services in terms of high, medium, or low)**

Contracting of Services				
Contracting of Personnel				
Procurement of Goods and Equipment				
Loan administration/supervision				
Advisory Services				
Other				

10. **Please explain what you believe to be the advantages and disadvantages of using UNOPS?**

11. **What are the barriers/motivators to using UNOPS on the part of your organization?**

12. **What is the process for negotiating UNOPS services arrangements? Has it been satisfactory?**

13. **Please describe the nature of the contractual arrangements?**

14. **Do you have any other comments or suggestions?**

Interview Guide for UNOPS Project Staff

The United Nations Office for Project Services (UNOPS) was created in 1994 as a separate and self-financing entity of the UN system offering a broad range of services to the various organizations of the UN system. In January of 2002, the Secretary-General re-affirmed the role of UNOPS, in a note to the Executive Board of UNOPS, specifying, inter alia, that "if UNOPS is to continue to meet its key objective of being self-financing, it is essential that it receive sufficient business from organizations in the United Nations system."

At its annual session 2002, the Executive Board of UNOPS determined that an independent operational review of the business model of UNOPS should be undertaken. The review would include the cost effectiveness of the business model, the potential market for expansion of business opportunities for UNOPS within the United Nations system, and the establishment of a framework for a sustainable UNOPS.

Against the above background, we would like to obtain your views on your affiliation with UNOPS and other delivery organizations in the past and your views on the need for UNOPS services in the future versus other delivery modalities.

1. How long have you been associated with UNOPS?
2. How did you become affiliated with UNOPS?
3. Which Portfolio Managers have you worked with?
    a. Do they provide with adequate support?
4. Please describe the nature of the work that you have been doing for UNOPS?
5. Please describe the current UNOPS project you are working on (budget) and your role?
6. What other projects have you worked on? (Number, clients, where, size, etc)
7. Are you generally satisfied with your relationship with UNOPS? Why or why not?
    b. To whom do you relate if you have difficulties or issues?
8. What support have you received from UNOPS in your work? IS it adequate?
9. What is your perception of the UNOPS market and competitiveness?

10. What is your perception of UNOPS systems for:

- c. **Procurement**
- d. **Financial Management?**
- e. **Contracting?**
- f. **Human Resource Management**

11. What improvements/ recommendations would you suggest for UNOPS?

12. Can you identify other areas of business for UNOPS?

13. Do you have any other comments or suggestions?

Questionnaires for UNOPS Offices – Field Visits

1. Please describe the organization of your office:
    a. Divisions
    b. Staff
    c. Interface with other offices (Copenhagen, NY)

2. Please describe the training that staff has had. (Project management, finance, procurement, etc)
    a. Is there a professional development program?

3. Please describe the nature of the work that you do in this office/division?
    a. External project management
    b. Loan supervision
    c. Administration.

4. Who are the key clients and what have been the delivery volumes for each?

5. How much business development do you do?
    a. Who does it?
    b. What level of effort does it take?

6. Can you provide an overview of how the work is currently allocated to Portfolio Managers and clusters?
    a. What would you consider the volume that a portfolio manager can handle?
    b. What are the advantages and disadvantages of locations such as NY, Geneva vs. field office..

7. What are the internal processes that you use for internal office communications?

8. Please comment on the adequacy of your documented procedures for internal management and project management?
    a. For external project management?
    b. What are the positives and negatives of this approach?

9. Please describe your structure and procedures for contracting personnel.
    a. What are the problems and issues?

10. Please describe your processes for procurement?
    a. Dollars and types of procurement?
    b. What are the internal procedures and delegated authorities?
    c. Are there standard procedures?

11. Please describe how you track your internal time and internal project related costs.

12. How is external project financial reporting done?
    a. What are the issues related to financial reporting with respect to IMIS?
    b. Do you have any sense what impact the ERP (People Soft system) will have?

13. In general, how can the office/division be made more efficient?

14. What are the key challenges and opportunities that you face at present?

Appendix C: List of Interviewees

UNOPS Staff

Gerald Walzer, Executive Director - NY
Anders Thomsen – NY
Anita Abhyankar DHRM – NY
Anna Chang, FBA – NY
Anne Matthews, ITS- NY
Antonio Ponce-Gonzalez, LAC- NY
Barbara Lemoine WAASE – NY
Bhikshuni Weisbrot, DHRM - NY
Bisrat Akliilu, Directorate – NY
Catalina Morales WAASE – NY
Charles Downs, SPD – NY
Daniela Constantino, WAASE - NY
Diksha Arturi WAASE – NY
Fatou Diarra, DHRM/TTS - NY
Franco Becchi – WAASE-NY
Gilman Rebello WAASE – NY
Gloria Wightman, DHRM/TTS- NY
Jaap Van Hierden (SPD) - NY
Jim Notaro, FBA- NY
Jill Nicholls, ENVP – NY
Katherin-Topar Michon, ENVP- NY
Laura Kinloch, WAASE – NY
Liliana Izquierdo, ENVP – NY
Melissa Esteva – RESS-NY
Michael Dudley, LPSD - NY
Michael Gruber, DIR- NY
Michele Jack, WAASE- NY
Michael Mersereau, SPD – NY
Mieko Tarui- DHRM-NY
Mohamed Yar – FBA-NY
Peter Van Laere, DHRM - NY
Peter Frobel, DHRM – NY
Philippe Elghouayel, DIR - NY
PV Ramesh- WAASE-NY
Richard Nassereddin, FASS – NY
Rodolfo Laurito, IFAD, NY
Rolf Sprauten WAASE - NY
Samina Kadwani, DIR - NY
Siamak Moghaddam WAASE – NY
Sein Mynt, ITS – NY

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Appendix D: Survey Instruments

Survey of Portfolio Managers and Assistants

This survey is intended to provide the Independent Review Team with an understanding of how portfolio managers and assistants spend their time. It is meant to review project related workload levels, versus time spent developing new business contracts and agreements and versus internal administration requirements.
Your cooperation in completing this to the best of your ability and sending it back to Goss Gilroy Inc would be greatly appreciated. All information will be held in strict confidence.

Your Division: ____________

Portfolio Manager: ☐ **Portfolio Assistant:** ☐

TIME ALLOCATION:
Please estimate the percentage of time spent on each type of activity listed below. Note that vacation and sick leave, etc. should be excluded from the estimates.

Type of Activity	Annual Percentage
	Project Related Activities
Administration/Execution	____________
Meetings	____________
Mission/Travel	____________
	Non-Project Specific Activities
Business Development	____________
Training & Development	____________
UNOPS Internal Activities	____________
Other (Specify)____________	____________
Total Percent:	100%

Comments: ____

Survey of Division Chiefs

This survey is intended to provide the Independent Review Team with a profile of the clients being served by UNOPS. This information will be useful in support of the team's market analysis work.

Your co-operation in completing the table below as soon as possible, and sending it back to Goss Gilroy Inc. would be greatly appreciated.

Division:			
Client	Total project delivery (if applicable) and income from client in 2002 (approximate $ only)	Anticipated project delivery (if applicable) and income from client in 2003 (approximate $ only)	Comments re: long term potential of client for UNOPS
	Project Delivery: $ Income: $	Project Delivery: $ Income: $	
	Project Delivery: $ Income: $	Project Delivery: $ Income: $	
	Project Delivery: $ Income: $	Project Delivery: $ Income: $	
	Project Delivery: $ Income: $	Project Delivery: $ Income: $	
	Project Delivery: $ Income: $	Project Delivery: $ Income: $	
	Project Delivery: $ Income: $	Project Delivery: $ Income: $	
	Project Delivery: $ Income: $	Project Delivery: $ Income: $	
TOTAL	Project Delivery: $ Income: $	Project Delivery: $ Income: $	

Appendix E: Summary Overview of Recent Reviews of UNOPS

1. Evaluation Review, December 1999

The evaluation of the relationship between UNDP and UNOPS described in the report was carried out over an eight month period ending in December 1999.

Among the main findings of the review was that UNOPS was dependent on UNDP for most of its business and for UNDP country office support. The review also found considerable mistrust and misunderstanding between the two agencies. Furthermore, in some cases, overlap and duplication existed where both organizations were acting as executing agencies, UNDP acting in direct execution mode.

At the operations level, the review found significant weaknesses in both UNOPS and UNDP. In particular, the report notes very poor financial reporting.

Budgetary cuts at UNDP had reduced the capacity of the agency for programme delivery and country office staff. These reductions had resulted in an effort by UNDP to choose execution modalities that ensured more extra-budgetary resources. With respect to fees reimbursed by UNOPS for UNDP delivered services and in country support, the review found a lack of transparency.

UNOPS performance, the review notes, was decidedly uneven in project/programme management and in other support services. The reviewers further observe that the manner in which UNOPS established the fees charged for services appears somewhat arbitrary and that clients saw no relationship between services provided and fees charged.

Among the recommendation made in the report and categorized as requiring urgent action, some of the more significant were that:

- the roles and responsibilities of the agencies be clarified and promulgated;
- the governance structure be reviewed;
- the "self-financing" capacity of UNOPS be reassessed;
- the financial reporting shortcomings of both agencies be remedied; and
- the fee setting mechanisms be clarified and rendered transparent.

2. *Operating Division Chiefs Retreat - June 2000*

In summer 2000, the Operating Division Chiefs of UNOPS organized a retreat to discuss and resolve issues related to "a growing sentiment that recent strengthening of non-operations support areas has led to higher internal overheads."

The retreat focused on what were considered critical areas:

- management issues; and
- decision making processes.

Concerns expressed included:

- Inefficient, arbitrary recruiting system;
- Lack of timely financial reporting leading to client dissatisfaction;
- Internal competition and contracting at arbitrary prices; and
- Need for standard procedures and policies.

A number of recommendations were made including:

- replacing the "unreliable" IMIS system with one that better met UNOPS operational and functional requirements;
- clarifying and documenting the roles of the operating and support divisions; and
- costing overheads to identify potential savings.

The report of the retreat is significant in that it points out that the Operating Division Chiefs felt that they were isolated from the decision making process at UNOPS. Furthermore, the ODC's felt that they did not have control of their income projections, budgets, and resources. The Operating Division Chiefs, while recognizing that the Staff Management Forum implied that senior management were unfair and underhanded, were very concerned that flexibility and reassignment of staff was needed to ensure the welfare of some underutilized staff members.

3. *OIOS Management Review, September 2001*

The Secretary-General requested that the Office of Internal Oversight Services (OIOS) conduct an independent study of the role and mandate of UNOPS to identify means by which UNOPS could be more effective in support of UN programmes. OIOS also reviewed the governance structure of UNOPS and its relationship with UNDP.

The review, completed in September 2001, identified a number of concerns including;

- perception that UNOPS was exceeding its mandated function;
- the Management Coordinating Committee had not adequately exercised its governance mandate;
- there was confusion among clients over the overlapping roles and responsibilities of UNDP and UNOPS;
- the working relationship between UNDP and UNOPS was seriously compromised; and
- fee setting and levels was non-transparent and inconsistent.

The review found that the original 1994 decisions of the General Assembly were sound in that UNOPS was needed and should be separate from UNDP and self-financing.

However, the report also noted that "improvements were required". Among the problems and issues that required improvement were:

- slow payment and weak financial reporting;
- UNOPS should provide "value added" services;
- UNOPS should implement major changes and improvements in:
  - management,
  - organization structure,
  - business development processes, and
  - communications with and approach to UNDP;
- UNOPS should address issues related to:
  - fee structure,
  - internal controls,
  - service delivery,
  - internal competition, and
  - field operations.

This review of UNOPS operations was particularly noteworthy in that the OIOS undertook a wide ranging survey of UNOPS clients and client satisfaction.

The review was also noteworthy for the written responses to the report of the review provided by UNOPS and by UNDP. The UNOPS response appeared to distort many of the findings and recommendations of the review. The UNDP response deemed the report flawed and offering little of value. The report has not been promulgated and remains confidential.

4. *SMF - Staff Consultations Report, December 2002*

This report provides an internal staff level overview of the situation of UNOPS. It also includes staff suggestions for immediate and longer term issues that require action. The perception, stated in the report, was that management was providing no clear direction regarding the future. The report voiced strong concern about the growing chasm between the staff and the management.

According to the report, the issues and dimensions of the problem facing UNOPS were;

- Rapid expansion of the organization in non-operational areas;
- Static or declining value of delivery and services;
- Significant increase in administrative expenditure without reference to income;
- Overoptimistic projections of business development results;
- Inappropriate organizational structure in the light of changing execution modality;
- Dependency on a narrow client base;
- Absence of human resources development strategy and declining skills and competencies; and
- Lack of performance measurement and management capacity.

The report suggested that this 'independent review' of UNOPS address these issues.

The SMF report recommended that, in the short term, major efforts be made in improving accountability and transparency in information sharing, operational and strategic planning and budgeting.

In the longer term, the report requested a commitment from the UN Secretary-General and the Executive Board that UNOPS remain an independent self-financing entity within the UN system yet questioned the viability of business model in light of declining ODA, changing execution modality, increased trends

toward high intensity, low income projects, increased administrative costs and changing requirements of clients.

The report recommends that the independent review examine the organizational structure of UNOPS in light of portfolio dynamics, business trends, and staff competencies, the decentralization of operations and unhealthy competition between geographical and thematic divisions. It also recommends a comprehensive review and streamlining of existing business procedures, fee structure, overhead expenditure levels, business acquisition strategy, client relations, in particular with UNDP, and human resources management and strategy including performance appraisal and recruitment.